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Politics this week

Apr 17th 2003
From The Economist print edition

The war is (more or less) won

AP

President George Bush said victory was “certain but it is not complete” in the **war in Iraq** after American troops took control of Tikrit, home town of Saddam Hussein. The last important strategic prize fell with little resistance despite rumours that elite forces loyal to Saddam would make a last stand there.

See article: The end of the war

Mosul and Kirkuk, in northern Iraq, fell to **Kurdish fighters** backed by American special forces. After Turkish protests the Kurds withdrew, allowing American forces to assume control of the two cities.

See article: How Mosul fell

Many Iraqis celebrated the fall of the old regime with a **looting spree**. Coalition forces stood by while government buildings, then shops, hospitals, banks and museums were ransacked. Order began to return as some 2,000 Baghdad police officers went back to work and patrolled alongside American troops.

See article: Baghdadis hope for order out of chaos

American-sponsored talks on the creation of a **post-war administration** began in Nasiriya, south of Baghdad. Representatives of Sunni, Shia, Kurdish and monarchist factions began the long and complicated task of brokering a deal between Iraq's fractious ethnic and religious groups. Iraq's main Shia group stayed away.

See article: The long, hard task of reconstruction

America accused **Syria** of helping the Iraqi regime during the war, offering refuge to fugitive Iraqis and developing chemical weapons. Syria denied the claims but America threatened economic and diplomatic sanctions.

See article: A new world order

The leaders of **Europe's three countries** whose governments have been most hostile to the war in Iraq—France, Germany and Russia—met in St Petersburg and reiterated their call for the United Nations to oversee the administration of Iraq. The Germans later sounded keenest to repair relations with America and Britain. France's president, Jacques Chirac, had a chat (by telephone) with George Bush—their first for more than two months.

See article: Isolated France?

American forces in Baghdad captured **Abu Abbas**, the leader of a Palestinian group that seized an Italian cruise ship in 1985, killing an American tourist in a wheelchair. Mr Abbas had renounced violence in the 1990s, apologising for the crime.

China comes clean

China at last admitted that SARS, a pneumonia-type illness first seen in the province of Guangdong, was spreading and started a campaign to scrub down public transport and office blocks to kill the virus. So far 3,300 people have been infected in 24 countries and 154 have died. Nine people died of SARS on one day in Hong Kong.

AP

See article: Not only bad for your health

North Korea abandoned its demand that any talks on its nuclear programme should be solely with the United States. American, Chinese and North Korean diplomats plan to hold talks next week.

See article: North Korea's nuclear weapons

In an unusually warm comment on Aung San Suu Kyi, Myanmar's democracy leader, the country's military government said it “has complete trust” in her “commitment to ensuring the smooth and stable development of **Myanmar**”. Talks between the two sides are expected to follow.

Japan faced possible power cuts this summer as many of the country's nuclear reactors were shut down for safety checks. This follows a number of accidents and safety lapses. Fossil-fuel plants will replace some of the lost power, but are likely to be overstretched by the widespread use of air-conditioners in high summer.

Crackdown in Cuba

More repression in Fidel Castro's **Cuba**. Days after 75 dissidents were sentenced to long jail terms, three men accused of hijacking a ferry in a failed bid to escape to Florida last week were shot by firing squad after summary trials.

Negotiators from **Venezuela's** government and the opposition reached a “pre-agreement” to hold a referendum on Hugo Chávez's presidency. But the government has yet to sign the agreement; a bomb later damaged the building where the talks were held.

See article: A year after Venezuela's coup

The Liberals won a surprisingly decisive victory in **Quebec's** provincial election, ending nine years of rule by the separatist Parti Québécois. That makes Canada “a stronger place” said Jean Charest, the victorious provincial Liberal leader.

See article: The Liberals win Quebec's election

Half measures

Congress agreed a **budget** effectively halving George Bush's tax cut to $350 billion; the White House vowed to fight on. But Congress did approve $79 billion of extra spending for the Iraq war.

See article: The tax-cut fight continues

Surprise party congress

Facing opposition from within his Social Democratic Party to his reform plans for the **German** economy, Gerhard Schröder agreed to a special party congress on June 1st.

See article: Disquiet in Germany's ruling party over the chancellor's reforms

The EU's 15 member countries and the ten newcomers due to join next year were due to meet in Athens to sign a **treaty of accession**.

See article: Can normal relations be restored?

In **Hungary's** referendum on EU membership, 84% of those who voted said yes—but only 46% of those on the register bothered to vote at all.

See article: Hungary and EU membership

Finland's politicians agreed on a new coalition government, to be headed by Anneli Jaatteenmaki, leader of the conservative Centre Party, the main gainer in last month's general election. The narrowly defeated Social Democrats will take part, as will the small Swedish People's Party.

Malta's voters re-elected the Nationalist Party, a month after their referendum vote backing its support for EU membership by 54% to 46%.

Fair(ish) election

Reuters

Some pretty odd goings-on notwithstanding, **Nigeria** held a successful parliamentary election. The ruling party of President Olusegun Obasanjo, who himself will be running for re-election next weekend, was on course for a convincing win.

See article: Nigeria's difficult elections

Thabo Mbeki gave the **South African** government's formal response to the Truth and Reconciliation Commission's report. The report recommended setting up a $385m compensation fund for victims of the apartheid era, partly financed by a wealth tax on business. Mr Mbeki sharply scaled down payments to victims and rejected the idea of a wealth tax.

See article: Paying for the past

Sierra Leone, which has set up its own Truth and Reconciliation Commission, held its first hearings. The commission will take testimony from some 700 survivors from the country's decade-long civil war which ended in 2001.

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Business this week

Apr 17th 2003
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A new overseer

The Securities and Exchange Commission picked **William McDonough** as head of the new accountancy regulator. The head of the New York Federal Reserve Board for the past decade, his tricky task will be to re-establish confidence in the profession.

See article: An overseer for America's accountants

Citigroup announced that first-quarter profits had fallen by 15% compared with a year ago to $4.1 billion despite America's leading financial-services conglomerate benefiting from thriving retail banking. Meanwhile, **Bank of America** profits rose by 11% to $2.4 billion.

J.P. Morgan Chase is likely to face legal action for its role in helping Enron to disguise its debts. Merrill Lynch and Citigroup have faced scrutiny for assisting the failed energy trader; Merrill recently paid $80m to settle with regulators.

Brave new WorldCom

WorldCom announced plans to emerge from Chapter 11 bankruptcy. It appointed a new chief financial officer, rebranded itself as MCI, the name of its retail long-distance operation, shifted its headquarter from Mississippi to Virginia and agreed to pay creditors a third of what they are owed.

Microsoft added a little cheer to the embattled technology sector, reporting that profits for the latest quarter were a shade higher than a year ago at $2.8 billion.

General Motors exceeded expectations with a profit of $1 billion in the first quarter, up 26% on a year ago, after a healthy performance at its car businesses.

An American judge cut by half a $12 billion bond that **Philip Morris** must pay into court to appeal against a $10 billion award made to smokers in a class-action suit. The let-off will allow the tobacco giant to give $2.6 billion to American states as part of a 1998 deal by tobacco firms to pay $246 billion to settle claims; Philip Morris claimed that it could not afford both.

Waging war

Institutional shareholders attacked Britain's **"fat-cat" bosses**. The National Association of Pension Funds, which controls a fifth of the stockmarket, criticised executives at Barclays Bank, Reuters and Shell, among others, for their excessive pay packets and urged members to put pressure on companies to curtail such extravagances.

See article: We're (still) in the money

Grundig, a German electronics company famed for its radios and TV sets, filed for bankruptcy. It pulled the plug after years of losing out to cheaper Asian manufacturers.

mmO2, British Telecom's demerged mobile-phone business, pulled out of the Netherlands, selling its operation there for just *euro*25m ($27m). mmO2 said that it would take a charge of £1.4 billion ($2.2

billion); the fate of its struggling German operation could be decided soon.

Fear of flying

Asian airlines suffered more misery as panic over **SARS** spread. Cathay Pacific's shares fell after a leaked memo suggested that it would ground its fleet next month if the SARS epidemic caused business to deteriorate.

See article: SARS infects global business

Pilots at **American Airlines** agreed on a wage cut of $660m a year; mechanics agreed to forego $300m. But flight attendants postponed their decision, leaving the fate of the airline in doubt. **Continental Airlines** reported a first-quarter loss of $221m.

That's LIFFE

Sir Brian Williamson said that he would quit as executive chairman of **LIFFE**, the London derivatives exchange, at the start of July after five years in the post. He will remain on the board of Euronext, the European exchange that bought LIFFE in 2001.

The **Chicago Board of Trade** jealously guarded its position of pre-eminence in American government-bond trading by threatening to ditch its clearing house, the Board of Trade Clearing Corporation. Its offence: talking with Eurex, a potential rival to CBOT, about clearing services as it attempts to cut over-reliance on the Chicago exchange as a source of business.

Bucking the global trend, the **Bank of Canada** raised its key interest rate by a quarter point, to 3.25%.

See: Canada forecast

Deal-making

Economic uncertainty depressed the value of **buy-outs in Europe** for the first time since the beginning of the 1990s. Despite some big headline-grabbing deals, private-equity firms spent just *euro*53.7 billion ($50.5 billion) in 2002, a fall of 21% compared with the year before.

Britain's thrifty **cannabis smokers** grow perhaps half their supplies at home, according to a new report. The many (legal) suppliers of equipment and seeds for such domestic horticulture allow greenfingered puffers to sidestep traditional “retailers”.

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After the war

Rebuilding Iraq

Apr 17th 2003
From The Economist print edition

How to win the peace

Get article background

NOW that the war in Iraq is (more or less) won, let attention turn urgently to winning the peace. There are three main tasks: to repair the damage done by the war to the United Nations, and in particular to relations between America and France, Germany and Russia; to secure a lasting solution to the dispute between Israel and the Palestinians, which is somewhat likelier now that the threat posed by Saddam Hussein to Israel is gone; and, above all, to reconstruct Iraq.

Although the stated aim of the war was to disarm Iraq of its weapons of mass destruction, nobody, least of all the American-and-British-led coalition that now controls the country, should have any illusions: how history judges this war will depend largely on whether Iraq's people have been liberated to live a life unambiguously better than that under Saddam Hussein. Allow Iraq to muddle miserably on, and its vast oil wealth to fall into the hands of another corrupt, brutal regime, and it will become a symbol of the failure of the West, above all of America, to live up to its promises—and a powerful recruiting tool for the enemies of freedom. Create a prosperous democracy, and the resulting shock and awe could change the Middle East far more than sanctions or military force.

But nobody should underestimate the difficulty of country-building. In Iraq, the tensions between the occupying coalition and certain other powerful nations may make the task harder, adding extra uncertainty about the role of international bodies such as the UN and World Bank, which have plenty of experience of how to—and especially how not to—go about reconstruction. You need look no further than, say, Germany, Japan and Poland to see that regime change, whether by military or by peaceful means, can be followed by a successful revival of the country. But, to succeed, those who will rebuild Iraq must learn the lessons of past reconstructions, of which there are many (see article).

Towards Iraqi rule

The rebuilders, above all, have to understand that political and economic reforms are inextricably intertwined. One cannot succeed without the other. On the political front, countries abhor a power vacuum. Although the creation of a democratic system is one of the main goals of reconstruction, establishing effective governance, and fast, matters just as much. Order has to be restored rapidly; there should be zero tolerance of looting and other crime. In countries such as Iraq with strong ethnic, tribal

and religious divisions, unless it is made clear from the start that everything possible will be done to try to hold the country together, the chances are that it will not stay together. This need not rule out a decentralised confederation—in Iraq this may be essential, not least to keep the Kurds on board—so long as local autonomy does not destroy the viability of the whole. The alternative may be having to cope with a tragic and bloody fracture, like Yugoslavia's after the death of Tito.

The need for effective government should be at the forefront of the debate about what roles should be played in Iraq by the occupying coalition, other countries and international bodies. It would be good to have broad international backing, including the UN's, for the reconstruction process—not least for the technical expertise that comes with it. But not if the price is a power vacuum. Better effective coalition-led transitional administration in Iraq than weak UN-led rule.

The same reasoning should apply to the role played by Iraqis in government. To add credibility and to tap local expertise, a representative group of Iraqis—not just Pentagon favourites such as Ahmed Chalabi—should soon be involved in decision-making. A series of “big tent” meetings, starting this week in Nasiriya, is a good first step towards creating a balanced interim administration, and no effort should be spared to get sceptical groups to participate. Even so, it may take some time for Iraqis and their leaders to learn the mutual tolerance and self-discipline of democratic government. Handing over full power before those leaders are ready to use it would be an error, with potentially disastrous consequences.

Iraq's rebuilders face a tricky challenge in balancing the realisation that all this takes time against the risk that the passing of time may undermine faith in the transition to democracy. They can learn from Bosnia, where the transition to self-rule has been smoothed by the UN high representative's occasional vetoing of decisions by local elected officials.

Don't forget the economy

Economic reform should begin right away. Some of what needs to be done, including the sequencing of reforms, is now better understood—not least due to the different experiences of former-Soviet-block countries after the fall of communism, which demonstrated the need to have an effective legal system and working institutions of state before embarking on big structural reforms such as privatisation. Iraq's organs of state, though tainted by Saddamite rule, are quite modern—certainly compared with, say, Afghanistan's—and may well be a viable basis for building an effective system of administration.

Iraq needs a new currency, partly as a symbol of regime change. And, because symbols matter, it would be foolish simply to adopt the American dollar, as some propose. For the sake of monetary stability, however, the new currency should be fixed to the dollar, or to a basket of dollars and euros, for a few years, perhaps through a currency board.

What of foreign aid? Unlike in many countries under reconstruction, this ought not to be Iraq's greatest need, thanks to its oil. But managing Iraq's oil in the best interests of its people may be the most necessary and contentious aspect of reconstruction. Any policy must tackle two great fears—that the oil will be expropriated by, on the one hand, Iraq's new leaders (much as in Russia after communism) or, on the other, the occupying powers, above all America. Serious debate about what to do should start now, for the answer is not obvious.

One option that may emerge as the best is to put Iraq's oil under international—not just American—trusteeship until an Iraqi government proves it can manage it. To temper the nationalist protests that would greet such a policy, it would be wise at once to pay some cash out of oil revenues to every Iraqi. (Indeed, this would be wise in any case.) Also, international administration of oil should be linked explicitly to action on easing Iraq's foreign-debt burden.

Regardless of how the oil reserves are managed, this debt burden needs to be reduced quickly to manageable levels, by a mixture of rescheduling and forgiveness. And, surely, Iraq's huge war-reparations bill, dating from the invasion of Kuwait, should be cancelled, just as Keynes argued should have happened to German reparations after the first world war. Given the scale of the challenge of reconstruction, and the huge prize for getting it right, could there be a greater folly than for the new Iraq to start life weighed down by the financial burden of the sins of Saddam Hussein?

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America and Syria

From Baghdad to Damascus

Apr 17th 2003
From The Economist print edition

George Bush has no reason to make war on Syria

EPA

BARELY had the Bush administration rid itself of one unpleasant Baathist dictatorship than it appeared to be beating the drums of war against the other. On April 14th, the day America announced that the war in Iraq was in effect over, the White House, the Defence Department and the State Department all fired a fusillade of rhetorical shots towards Damascus. Syria was “a rogue nation” that sponsored terrorism; it had developed chemical weapons; it was helping Saddam Hussein's henchmen escape. America was considering “stern measures”. Syria's leader, Bashar Assad, should “seriously ponder the implications of [his] actions.”

This verbal battering of Syria has made even some of America's closer friends in Europe scratch their heads in puzzlement. On the same day that the Bush administration sent off its warnings, a British foreign-office minister was to be found sipping tea with Mr Assad, a young leader whom Tony Blair had hoped to push in a liberal direction. Mr Blair fended off questions in Parliament about Damascus being the next target. Spain's José María Aznar was quick to say that he counted Syria as a friend.

It is no wonder that America's allies are nervous. Mr Blair and Mr Aznar, and many others who took political risks by supporting the Iraq war, have spent months telling sceptics at home that Iraq was a one-off. Saddam was not just any old dictator, running any old regime of which America happened to disapprove. He had also put himself and his country well outside the law by violating the ceasefire he signed after invading Kuwait in 1991 and ignoring umpteen Security Council resolutions instructing him to give up and stop seeking weapons of mass destruction.

Iraq, in short, was a special case. As far as America's European allies are concerned, the idea that Iraq might be the first of a series of wars, in which America gallivants around the world knocking down unfavoured regimes such as Syria's is not supposed to be part of the plan at all.

Fortunately, it does not seem to be. The idea that President Bush is seriously considering military action against Syria has little substance. Indeed, on April 15th Colin Powell, America's secretary of state, said as plainly as he could at a press conference that America had no list of next targets and no war plans. On the other hand, the administration has plainly made a careful decision to use its new power in the region to pile the pressure on Syria. Is this pressure useful?

Syria is a dictatorship. But it is a less terrible one than Iraq was under Saddam Hussein. Its new

president has so far had no need to employ the sort of bloody repression (including the notorious killing of between 10,000 and 30,000 civilians at the city of Hama in 1982) which his father turned on internal dissenters. Nor does Syria pose a large external threat. Its army is no match for Israel's, and it is hemmed in by other powerful neighbours such as Turkey and (now) American-occupied Iraq. Despite vigorous denials this week, it is widely believed to possess chemical weapons and the missiles that could deliver them. But unlike Iraq, which the Security Council prohibited from owning such weapons, Syria is legally entitled to own them if it wants to. And since Israel is an undeclared nuclear power, it may very well want to.

In short, Syria is neither a large strategic threat, nor has it put itself, as Iraq did, on the far side of international law. An American war on it would not be justified, and would not be seen as justified by Arabs or anyone else.

But talking tough might help

There should be no new war. But this does not mean that some American heavy-breathing might not have a salutary effect on Mr Assad. It might, for a start, persuade Syria's dictator that it would be a grave mistake to meddle in post-war Iraq, in the hope that he might spoil America's efforts to create a new democratic regime there. Rebuilding Iraq will be hard enough without the interference of outside wreckers. This week's barrage of threats from Washington will have been worthwhile even if its only achievement is to stop Mr Assad letting volunteers cross into Iraq to fight the Americans.

Beyond this, America does seem utterly serious about its desire for Syria to stop its support for terrorist groups, such as the Palestinian Hamas and Hizbullah in Lebanon. Mr Assad, of course, protests that these organisations are not terrorists but resistance movements. He likens Hamas's suicide bombings against Israeli citizens to France's resistance against the Nazis. Be that as it may, a feature of these groups is that their stated desire is the destruction of the Jewish state, not the two-state solution for Palestine which Mr Bush now promises to promote with renewed vigour.

Although Syria poses no great strategic threat, it is a past master at playing the spoiler in Israeli-Arab peace negotiations, especially when it fears the Palestinians are in danger of cutting a deal without it. It does no harm, as America begins to rebuild Iraq and turn new attention to Palestine, for the lonely Baathist in Damascus to be put on notice that, after America's victory in Iraq, the rules of the game have changed.

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Spain's political infighting

Cool it

Apr 17th 2003
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In the wake of Iraq, verbal warfare has gone too far

AP

HE HAS been an effective prime minister. Since 1996, José María Aznar has helped to free and pep up the economy. He has worked, with success, to enhance Spain's place in Europe and the world. He has bravely defied voters, to support the Iraq war. Yet in these past 12 months before he plans to step down from his post, at next year's general election, Spain's public life is being debased, with help from his Socialist and far-left opponents but, not least, from himself.

The war in Iraq is one reason: 90% of Spaniards opposed it. Another is a growing debate about regionalism: how far can Spain let some of its 17 regional governments have more power, at the risk of its own integrity? At the extreme, how can it defeat the Basque-separatist gunmen of ETA? The context is electoral: even before next year's big vote, next month all municipalities and 13 regions go to the polls. And, say the pollsters, the war has put the Socialists ahead.

You would expect some heated invective, and such there has been. Mr Aznar has often shown an authoritarian streak; in particular, he tends to treat non-violent Basque nationalists almost as terrorists. In the fierce debate about Iraq, he has come close to taking a similar line about those who oppose the war. They have hit back in kind. One leading Basque far-leftist has called the war-supporting Mr Aznar himself a “terrorist”. To the Socialists' leader, José Luis Rodríguez Zapatero, “the only thing he likes about democracy is power”.

What's the harm in this? Well, Spain is not Sweden: it emerged from nearly 40 years of dictatorship only in 1975. And there are old fissures in society that still lie close beneath the surface. This is not a place where one should blithely say, as Mr Aznar has, that his Socialist opponents' ideas on Iraq are a danger to the state. Conceivably, they might be; and, true, he named the ideas, not the party. But do not expect voters to notice that subtlety, any more than they were invited to in Franco's days. No more is it wise, as the Catalan Socialists' leader has, to liken Mr Aznar's efforts to win public support for the war to the view of Hermann Göring that, of course, the public do not want war, but under any form of government you can get them to back it by telling them they are being attacked. There is nothing specially Nazi about that. But there are decencies to be observed. Mr Aznar is no lover of dictatorship. His critics could usefully remember that; he could avoid giving them any excuse for forgetting it. Spain would be the gainer.

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Corporate governance

Open the club

Apr 17th 2003
From The Economist print edition

Many bosses think that they are scrutinised enough. They are wrong

ON BOTH sides of the Atlantic, the air is full of outraged squeals as regulators tighten the rules on corporate governance. In the United States, companies are lobbying energetically against a proposal by the Securities and Exchange Commission to review rules that discourage shareholders from nominating directors to corporate boards. The SEC has received 474 letters of protest against such a change since the start of last October, more than it usually gets in a year. In Britain, there has been an outcry against a new code of governance proposed by Derek Higgs, an investment banker.

Some of the grumbles are justified. Putting all shareholder proxy proposals to the vote would be formidably expensive; and the code advocated by the Higgs report is too didactic, with too much emphasis on rules rather than principles. On the other hand, many companies are behaving as though corporate governance has already reached perfection, and any attempts to change it must cause harm.

That is unreasonable. For instance, the job market in board directors is notoriously imperfect and appointments are usually in the boss's gift. Anything that opens the market will probably be an improvement. And too often, a tough boss suppresses discussion and manipulates the agenda. So encouraging directors to meet sometimes without his presence is likely to bring benefits.

Yet the ferocity of protest suggests that something more radical may be happening. A cosy club is under attack. Institutional investors are taking their role far more seriously than before, at least for now. It is encouraging that on both sides of the Atlantic shareholders have been taking a tough line with corporate boards that reward the boss munificently while the company flounders. In Britain, investors have kicked up a fuss over pay at Reuters, Shell and EMI, a big music group that has now decided to back down. In America, those under attack include General Electric and Hewlett-Packard.

All this is welcome. One of the main problems with establishing good corporate governance is that ownership is dispersed. But institutional investors own a bigger share of American equities than ever before: 49%, four times as much as 40 years ago. As the institutions' share of equities rises, so the option to sell declines and the case for raising a stink gets stronger. If institutions behave like owners, companies will be well governed. Regulators must remove all obstacles that discourage them from doing so. Then it will be clear whether bad governance springs from market failure—or investor apathy.

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Letters

Apr 17th 2003
From The Economist print edition

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Preferential treatment

SIR – One defect of affirmative action is that, at present, the poorest and least-advantaged non-minority applicants bear most of the costs ("End it, don't mend it", April 5th). If we are going to have preferential treatment for minorities, the burden should be shared by all. University spaces preferentially allocated to minorities should be taken from those at the top of the applicant pool as well as at the bottom. The son of a Harvard professor is better equipped than the daughter of a blue-collar worker to cope with losing a seat at a top university because of affirmative action. Yet America's well-bred well-educated classes tend to assuage their guilt by making those below them pay.

Mike Berline
San Francisco

SIR – You say that we should do away with affirmative action, and then get about the more important and difficult task of ending the institutionalised provision of "woefully inadequate education for huge numbers of poor minority students." Don't you have the order wrong?

Erik Honda
San Francisco

SIR – Your statement that "across the world, in India, Malaysia, South Africa and Brazil, racial preferences have caused needless strife" begs the South Africa question: "where on earth did you get this notion?"

Essop Pahad
Minister in the presidency
Pretoria, South Africa

Fear of SARS

SIR – Hong Kong has been hit hard not by SARS but by the panic resulting from misinformation and rumour ("Coughs and sneezes", April 5th). The disease is not as contagious as is imagined. There is not one case of transmission on our sardine-packed public-transport system or through the air-conditioning systems in office buildings. There is no reason to believe that keeping kids out of schools will lower their risk of infection.

Mask wearing and school closures are both political gestures to deflect blame from the government. But the fear has caused panic that will effect Hong Kong's economy. Hong Kong's example has pushed many other governments to adopt their own over-precautionary measures. Should they look into Hong Kong's SARS experience more closely, they would know that there is nothing to fear but fear itself.

William Kwan
Hong Kong

SIR – China has lied to the World Health Organisation and the world in general over the extent of the spread of the SARS virus in the country. It has understated the number of people affected, deaths and the places where the virus is strong. China is in denial and refuses to confirm that the virus is affecting

people in Beijing and Shanghai, as well as South China and Hong Kong. It is necessary to ban all travel between China and Hong Kong and other countries.

Vipul Thakore
London

Softer on drugs?

SIR – Although efforts to liberalise international-drug policies face significant obstacles, there is reason to believe that the world's leading anti-drug crusader, the United States, is shifting away from its hardline position ("Breaking convention", April 5th). In California, voters approved the medical use of cannabis and eliminated jail sentences for some instances of possession. Medical-marijuana laws have since been passed in seven other states, along with the District of Columbia (where Congress used its authority to nullify the decision).

Many states now treat possession of cannabis as a minor infraction, akin to a traffic violation, and in popular culture the war on drugs has long been something of a joke. These reforms have yet to reach the federal level but the United States cannot long find itself allied with China and the fundamentalist Islamic states before it will have to reassess how its policies on drugs fit together with its liberal ideals.

Adam Sepharim
Studio City, California

The way of the war

SIR – Simon Stuart (Letters, April 5th) claims that *The Economist* keeps getting it wrong about Iraq. It is in fact Mr Stuart who has it pretty much completely wrong. Germany is making great leaps trying to get on the bandwagon; France is where France has always been—out of the loop; the Shias have indeed risen up and welcomed their liberators; and the military campaign has exceeded virtually everyone's expectations.

Mr Stuart seems to have made early predictions based on a clear deficit of evidence. Maybe he should begin preparing a mea culpa to be delivered in a month or so when his prediction of a "long and bloody" occupation also bites the dust.

Don Merritt
Berlin

Dogged by criticism

SIR – I disagree strongly that President George Bush's "dogged determination" is his biggest strength (Lexington, April 5th). In fact, his "stubbornness" is what has made the United States, a nation with much international sympathy and support after September 11th, into the most reviled and detested country on earth—not just in the Arab world. Mr Bush's dogged determination to invade Iraq in spite of almost universal opposition abroad and substantial opposition at home has squandered this country's international good will and led to an America divided as it has not been since the Vietnam era.

One result of our "victory" over Iraq will be to make the world a much more dangerous place for Americans to live, work, and travel, at home and abroad. Far from protecting my freedom and providing for my security, Mr Bush's stubbornness has jeopardised both.

Natalie Knowlton
Erie, Colorado

Poor relations

SIR – Your article on American diplomacy misses a basic point ("Collateral damage", April 5th). The American public no longer trusts the people, the government or the leaders of France, and Germany to a large extent. Jacques Chirac and Dominique de Villepin are considered untrustworthy and dishonourable by a majority of Americans. The way the French leadership treated Colin Powell will not be forgiven easily. No administration could try to heal the rift without incurring the wrath of the American people. I suspect it will be many years before France is again accepted as an ally by the American public.

David Manchester
Longboat Key, Florida

Pigeon post

SIR – The “surge in demand” you report by pigeon fanciers in Baghdad probably has little to do with “people have nothing to do” (“Good days for pigeon-sellers”, March 29th). I assisted my father in catching pigeons in a bell tower in Winschoten in the Netherlands during the second world war. They helped our family to survive during the German occupation of the country. I can still remember clearly our pigeon dinners on Easter Sunday: mmmm.

Jan Van den Hende
San Antonio, Texas

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Rebuilding Iraq

The hard path to new nationhood

Apr 17th 2003
From The Economist print edition

AP

Iraq's military occupiers will be starting almost from scratch

Get article background

SHOUTS of rage greeted General Douglas MacArthur in 1945, when he entered Japan as head of the American army of occupation. But many Japanese shed tears when he departed six years later, having set up a working country again. A retired general, Jay Garner, is shortly to fill the MacArthur mould in Iraq, at least in the beginning. Whether the occupying powers are mourned when they leave this time, perhaps some years from now, will also depend on how good a job they do of rebuilding.

The overriding lesson from past efforts is that economic and political reconstruction are tightly linked. One cannot happen without the other. Beyond that, two further lessons emerge. First, how aid is used matters at least as much as how much aid there is. The Marshall-plan aid after the second world war, for example, was actually quite a small proportion of European GDP at the time. Second, although handing over to local government must be an explicit goal of nation-building, power should be transferred only as quickly as local institutions can exercise it properly—no matter how keenly the occupiers feel that they must not appear to be imperialist.

So, in Iraq, the first priority should be to establish sovereign power across the whole territory, backed with sufficient money and force to ensure that the country does not break up. Second, the ruling powers must quickly establish institutions involving all the main factions, while considering—within the overriding imperative to hold the state together—the devolution of power to distinct regions on a federal pattern. It should help that none of Iraq's neighbours wants to see the break-up of the country, and that some, especially Turkey and Iran, are deeply worried at the prospect.

But where is the legitimacy of the nation state to come from? There are two possible sources. One is historical: appealing to a pre-Saddam notion of Iraq. The other is practical: getting the Iraqi state to deliver efficiently to its people the things they want and need.

In post-communist Europe, the countries that did best had an existing, pre-communist base of democratic, market and civil-society institutions. Poland and Hungary, therefore, have been much more successful than Russia and the central Asian states. In Iraq, a 20th-century imperial creation, it is still unclear whether the pre-Baath Party era provides a founding myth for a post-Saddam state, and whether

de-Baathification of the bureaucracy can succeed as well as did similar purging and redirection of the organs of state in Germany and Japan.

De-Saddamisation could be done in three ways. The first is to draw “a thick black line under history”, as Poland and some other ex-communist countries did, refusing to investigate and punish the leaders of the communist regime. The second is to set up local bodies to address the sins of the old order: South Africa's Truth and Reconciliation Commission, for example. The third method is victor's justice, carried out by the occupying powers—of which the Nuremberg war-crimes trials remain the most famous instance.

Failure to prosecute past crimes can leave open political wounds; but, in general, it will be better to get on with building the new Iraq than with settling every score from the old. And so long as justice is seen to be done to the nastiest elements of the Saddam regime, it may be better to stop at a point which, for some, will not be rigorous enough.

The top priority is to avoid a power vacuum during the transition to a new regime. This happened in post-communist Russia, where rolling back the frontiers of the state meant, in effect, handing power to the mob. Most successful nation-building efforts have involved occupying powers staying long enough to bed-in effective government, and this takes time. America did not fully hand over power in Japan until 1952.

In most countries where a tyranny falls, the most obvious evidence of lack of effective government is an economic mess. Arguably, for nation-builders, fixing this mess should precede full political reform, both to meet the material needs of the population and to lay the foundations of social and political stability. In Bosnia, the peace process paid too little attention to economic reform; as a result, the country became largely dependent on aid, with a sizeable shadow economy dominated by organised crime.

Iraq's great advantage over countries such as Bosnia, Afghanistan, East Timor and Rwanda is that it has oil. This creates the potential to do reconstruction well and at little fresh expense to the rest of the world; but it also creates a risk that this hugely valuable asset will be mismanaged or expropriated—by local elites or, indeed, by the occupying power.

Iraq's oil creates the potential to do reconstruction well and at little fresh expense to the rest of the world, but also creates a risk

The occupiers' right to make use of Iraq's oil has been studied by Dobie Langenkamp, of the University of Tulsa's law school. He concludes that, under international law, oilfields are “immovable government property”: occupying powers have the right to revenues from the sale of oil from existing fields, but no right to ownership of the underlying assets themselves. An occupying force would probably have no right to build new wells to exploit Iraq's reserves faster—and certainly no right to sell off Iraq's oil assets to foreign firms through privatisation.

What is more, oil revenue must be used for Iraqi purposes, such as feeding the population or rebuilding bridges; it cannot simply be whisked away to pay for tax cuts for Americans or, perversely, be used to pay for the war itself. Both America and Britain, in any case, have stated repeatedly that they have no wish to seize the oil for themselves.

Under the Geneva Convention, the occupying powers are also entitled and obliged to carry out basic humanitarian reconstruction, such as repairing roads, rebuilding bridges and restoring electricity and water supplies. The political storm over the awarding of contracts by the American government suggests that in Iraq they are getting on with this task quite quickly, and that the American taxpayer will probably finance it—as he financed the war that did the damage.

Macroeconomic imperatives

Longer-term economic rebuilding should start with the establishment of a reliable medium of exchange. When Anwar-ul-Haq Ahady left the University of Providence to become governor of the new central bank of Afghanistan last year, he found a fine building—a legacy of British rule—but two competing currencies and a money supply captive to a firm in Russia that was reluctant to stop printing notes. In Bosnia, the “convertible mark”—which replaced Yugoslav dinars and Croatian kunas—has been one of the few successes of economic policy. It is widely accepted across the country because of its explicit fixed link first to the Deutschmark, and now to the euro, through a currency board.

A similar arrangement might work well in Iraq. What the dinar is pegged to does not matter much,

providing it is a hard currency. Why not peg it to a basket of 50% dollars and 50% euros, a neat political compromise? True, simply introducing dollars—or, indeed, euros—would mean instant currency credibility. But it carries other risks, besides unhelpful political symbolism. Dollarisation would fully expose Iraq to volatile oil prices; creating a new currency, on the other hand, would allow it eventually to move from a currency board to something more flexible, thus permitting monetary policy to soften the impact of swings in the price of oil.

An equally urgent priority will be to settle Iraq's external financing position. It faces massive financial claims from other countries, first over its Saddam-era debt and second over its Saddam-era reparations bill. If Iraqi oil is to generate a sufficient flow of finance to pay for reconstruction, this burden must be reduced.

Outstanding debts are probably best handled by rescheduling via the London and Paris Clubs. If those measures do not go far enough, Iraq would obviously not qualify for debt forgiveness under HIPC, a World Bank initiative to help highly indebted poor countries. But precedents exist for debt forgiveness on political grounds, as some of Poland's was forgiven in the early 1990s.

The repayment of some Iraqi debt, despite regime change, is crucial to rebuilding Iraq's credibility

The repayment of some Iraqi debt, despite regime change, is crucial to rebuilding Iraq's credibility in international credit markets. The payment of war reparations is not. Its $200 billion liability arises exclusively from Saddam's expansionist activities. The case for continuing to punish the Iraqi people for the sins of their unlamented dictator is a poor one, as Keynes so eloquently demonstrated in Germany's case at the end of the first world war.

This mixture of rescheduling and forgiveness will allow Iraq to return to international capital markets to raise the cash for reconstruction. Unlike many countries where regimes have changed, its copious reserves of oil should guarantee plenty of willing lenders. Managing this resource and using the revenues wisely are the next big challenges.

Good budget behaviour

If the fabulous returns available on Iraq's oil reserves—second only to Saudi Arabia's—are captured by an elite and salted away overseas, the reconstruction will fail and the Iraqi people will remain in poverty. The scale of this challenge cannot be overstated; Iraq is surrounded by countries that have had their oil wealth expropriated in exactly this way. Indeed, the only countries, or parts of countries, that both depend on natural resources and have made a decent fist of sharing the wealth broadly among their people are those with well-established democracies, such as Canada, Australia, Norway and Alaska.

At a bare minimum, what happens to Iraqi oil and the revenues from it should be decided in an open and accountable fashion. This means that oil should be extracted and sold by a company, or companies, at arm's length from government, and that the government should extract its cut through taxation, not by sucking the revenues directly into the Treasury. However, given the risk that political cronies of the government will run any “arm's-length” company, there may be a strong case for putting the oil and the revenues from it under international administration, perhaps for several years. Such a scheme might be built on the existing, and admittedly far from perfect, UN Iraqi oil-for-food (OFFP) programme.

There may be a strong case for putting the oil and the revenues from it under international administration, perhaps for several years

Having secured for the Iraqi people what will probably be the country's main source of budget revenue, a proper budgetary process must be set up for spending it. This should be put under local leadership, if not necessarily full control, as soon as possible. Spending commitments should be developed by ministries to deliver vital services such as policing, health care and education. Co-ordination of spending programmes should be done by a ministry of finance, which would also oversee the development of a taxation system. These ministries would then become the core institutions of the new Iraqi state, benefiting from expert international advice. (The World Bank would probably prove a better adviser than America's State Department.)

A steady flow of finance from Iraq's oil wealth, however, may inspire this new local leadership simply to squander the revenue. So there is a case, too, for internationally imposed budget constraints. In other nation-building efforts, the bulk of financing has come not from local assets but from international aid, paid directly into the Treasury. Access to these resources is typically subject to agreed terms and

conditions, with a view to promoting good government. A similar mechanism could be put in place to ensure that the new national administration in Iraq can gain access to the oil revenues, at least at first, only if it can demonstrate that it is using the money efficiently.

Managing the oil

After macroeconomic and budgetary reform must come structural reform: and this, too, begins with oil. The easiest way to maximise efficiency is to sell off the Iraqi oil industry and reserves to the highest bidder. In a competitive auction, the international oil companies would bid up the price to a level where they are making only a normal rate of profit, thus giving any economic rents to the Iraqis. (Oil generates huge economic rents because the world oil price tends to be far above the cost of producing an additional barrel of oil; it may cost as little as $2.50 to produce a barrel of oil in Iraq, compared with a current global oil price of around $24 a barrel.)

Clearly, despite American feelings of betrayal by France and Russia, it would be against the interests of the Iraqi people to restrict bidders only to firms from countries that supported the war. It would also make sense, legal issues permitting, to cancel any contracts signed by the Saddamites, as these did not benefit from bidding pressure from firms obeying UN sanctions, and were therefore not a good deal for the Iraqi people.

Despite American feelings of betrayal by France and Russia, it would be against the interests of the Iraqi people to restrict bidders only to firms from countries that supported the war.

One option would be to put the money raised in a trust fund and invest it for the long term. The question of distribution could be addressed by allocating shares in the trust fund, or by promising to make annual payments, to each Iraqi, or by creating personal savings accounts along the lines of the Singapore state retirement fund. The trust fund could be managed to maximise returns to its shareholders, the Iraqi people, presumably by investing most of the money outside Iraq. This would reduce inflows of foreign currency, keeping the exchange rate down and protecting the competitiveness of the rest of the economy.

Such a scheme would certainly irritate economic nationalists. But the problem with many alternative schemes, such as retaining an Iraqi oil monopoly or using production-sharing agreements between international firms and Iraqi companies, is the potential for corruption arising from the economic rents. Iraqi elites would have a powerful incentive to expropriate at least a portion of them.

To exclude foreign competition entirely, some policymakers propose a programme of mass-privatisation with competition among Iraqi firms to ensure efficiency. The Iraqi oil industry would be divided up between several competing companies. Shares in these companies would be given free to every Iraqi, as tangible proof of their ownership of the oil.

Alas, there are no notable examples of this sort of scheme working. In Russia, mass-privatisation spread ownership among many shareholders; the result was management that was largely unaccountable or, in some cases, allowed investors with relatively small shareholdings to exert disproportionate influence. Moreover, before a market in shares became established and a fair price was set, many small shareholders—mostly the poorer ones—sold their shares quickly at well below their true value. These problems might be reduced by prohibiting the quick sale of shareholdings, say for a few years. But the other weakness in an entirely domestic Iraqi privatisation is that Iraq may find it harder to gain access to valuable foreign know-how and capital.

A need for sound laws

For the rest of Iraq's economy, the basic principles of sound economic management apply. Keep bureaucracy down, maximise competition, set reasonable and efficient tax rates. Experience from nation-building elsewhere suggests that the main challenge here concerns the legal system.

A first question will be the adequacy of the Saddamite legal system, and the willingness of the Iraqi people to continue to use it. At the very least, there will be widespread scepticism about the independence of judges. Arguments will also rage about the validity of formal property rights established under the old regime, and about how to recognise property rights that are informal and implicit. In post-

war Japan, one of the biggest challenges was to draw up laws to recognise oral ownership contracts for land in what was essentially a feudal farming system.

EPA

Dinars in search of a peg

To what extent can legal systems be imported “off the shelf” from abroad? In post-war Japan, General MacArthur oversaw the introduction of American corporate law, including the old Glass-Steagall Act that separated investment banking from commercial banking. This worked to some degree, though Japan's industrial structure evolved in a very different direction. Several American departments of state are now preparing proposals to graft the best of their legal and regulatory structures on to Iraq. But according to Hernando de Soto, the most fashionable economist among market-oriented development policymakers, importing a legal system wholesale carries big risks. It is often more effective to go with the grain of local legal practice—formal or, more often, informal—than to adopt an alien “first-best” model.

In Iraq, the thorniest questions may well concern restitution—particularly of property abandoned by political prisoners and Iraqis fleeing into exile. In post-communist eastern Europe, settling claims for restitution has been an intrinsic part of establishing the legitimacy of the new regime. Against the argument of justice can be pitted an economic concern: that prolonged uncertainty over ownership of assets can undermine their economic use. The best solution is to transfer the liability on to the state budget, to provide financial compensation when the claim is settled, with the actual property remaining in the hands of the current owner—whether the state, as in eastern Europe, or private individuals, as is more often the case in Iraq.

As well as restitution, regime change in many countries—especially in Latin America—has brought pressure to redistribute land and other sources of wealth. In Iraq, there is certainly a chance now to make such transfers—though perhaps not by introducing an equivalent of America's old Homestead Act, as some American policymakers have proposed. Would Iraqis really be better off if they had the right to stake a claim to a few acres of desert? Furthermore, in Iraq the big issue is not the land, but what lies underneath it. The real redistributive challenge is to give everybody an equal share of the oil wealth.

One particularly tricky question will be whether to pay every adult a chunk of the oil revenues each year as basic income. This would, of course, provide tangible evidence that the oil really belongs to the Iraqi people. However, it could have a big downside. Many young Saudi Arabians have become so accustomed to living off oil wealth that they are now disinclined to work, and the government has been driven to hectoring them to take jobs.

If that is the worst problem Iraq has to face in a few years' time, its reconstruction will be counted an astounding success. At present, however, Jay Garner's task makes Sisyphus's—and even, possibly, MacArthur's—look easy.

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The war's end

With a whimper

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AP

The conflict is over. Now for the casus belli

Get article background

LIKE the waving of the Stars and Stripes at statue-toppling ceremonies, declarations of victory are considered indecorous at the Pentagon. But the fact that many of the ships, submarines and warplanes that have been encircling Iraq from the Red Sea, the Persian Gulf and air bases across the region have started heading home to Britain and America says something about the tempo of “Operation Iraqi Freedom”. With the fall of Tikrit, once considered Saddam Hussein's most likely Alamo, the second Gulf war ended in effect after just three-and-a-half weeks.

There is still fighting to be done. Those infamous “pockets of resistance” persist; some Saddamite diehards, and (especially) foreign Arabs who have come to Iraq to die killing Americans, are still harassing the invaders. A stash of several hundred bespoke suicide-bomber vests has been found by marines in Baghdad, and others are said to be missing. General Tommy Franks, the coalition's overall commander, says that each of the pockets that were sealed but not emptied on the drive from Kuwait to Baghdad will now be dealt with. American troops continue to arrive in Iraq, even as others head home.

All the same, there will now be no more full-scale battles. The northern cities of Kirkuk and Mosul fell last week. For a day or two, it looked as if one of the worst cases predicted before the war might materialise after Kurdish *peshmerga* entered Kirkuk: Turkey, alarmed by their proximity to Iraq's northern oilfields, began to make bellicose noises. But the Turks were soothed by Washington and the withdrawal of the *peshmerga* from the city.

Next came Tikrit, Mr Hussein's tribal stronghold, where the bonds of patronage and complicity with his crimes were probably strongest. The rumps of various Iraqi security and paramilitary organisations were thought to have retreated there. Yet, perhaps because of the demoralising effect of Baghdad's fall—one of the reasons for taking it so swiftly—or perhaps because, in the end, few of even his most loyal followers were loyal enough to Iraq's dictator to want to die for him, the Americans entered Tikrit relatively easily.

Easily for them, that is. Many of Tikrit's invisible defenders parked their tanks and ran away; but their resistance was also partly broken by the sort of bombardment that smoothed the advance of coalition troops throughout the campaign. Like the role of special forces, this facet of the war, and the number of Iraqi soldiers it killed, is not yet properly understood, and may never be.

And although every torture chamber and pharaonic palace that the coalition discovers help to vindicate its campaign, the world is also seeing pictures of the mangled civilian victims of its bombardment. Mr Hussein's regime stopped updating their figures for civilian casualties some days before it evaporated; the coalition claims not to count them. So a reliable estimate for Iraqi civilian deaths, like its military equivalent, cannot be made. Whatever the number, it is still rising, partly because of poor fire discipline among some nervous American troops. There was a bloody shooting in Mosul on April 15th. The figures for coalition deaths are available: at the last official count, including accidents and “friendly fire”, 30 Brits and 121 Americans had died. Seven American prisoners-of-war were recovered safely in Baghdad.

The Ace and his clubs

Another figure yet to be apprehended is Mr Hussein himself, along with most of the top henchmen and -women in the deck of pictorial cards the Americans have produced to aid identification of the guiltiest. The attempts to kill Mr Hussein from the air—one that initiated the war, and another that may have helped to precipitate the fall of Baghdad—came close enough to succeeding to have restored some of the reputation of America's intelligence agencies. Nonetheless, there have been reports of Mr Hussein playing a (cursory) role in the city's defence. The DNA sampling that the coalition says could verify his death has not yet done so. Finding or killing Mr Hussein may not be exactly analogous to locating Osama bin Laden, whose symbolic importance is greater; but catching him could help, for instance, to forestall any insurgencies that the dregs of his supporters may be planning.

Some of the coalition's other most wanted may have fled the country; some may have been killed. A small number have indeed been captured: Watban Ibrahim Hasan Al-Tikriti, Mr Hussein's half-brother, was reportedly intercepted en route to Syria (given the risks, it seems unlikely that Syria would have admitted Mr Hussein himself). Amir Hamudi Hasan al-Sadi, the erstwhile president's scientific adviser, surrendered in Baghdad. Iraq's top nuclear boffin is also rumoured to be in coalition custody.

But these scalps have not yet led the coalition to Mr Hussein's alleged weapons of mass destruction. For whatever military, diplomatic, logistical or involuntary reasons, he failed to deploy them during the war; there have been several “false positives” in the concomitant hunt for proscribed agents and equipment. (The coalition would do well to have any genuinely noxious finds verified by independent outsiders.) For the moment, the official line is that the post-war, coalition inspectors are no more likely to find the stuff without the help of Iraqi scientists than were the pre-war UN snoops. But George Bush and Tony Blair will no doubt be hoping that the *casus* for their victorious *belli* turns up soon.

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The scene in Baghdad

In search of lost things

Apr 17th 2003 | BAGHDAD
From The Economist print edition

From missing relations, to stolen police cars, to peace

Get article background

ONE day in 1980 Rabbiyah Khadi, a 20-year-old medical student, was arrested at college. His family never knew why. Perhaps it was because he had refused to join Saddam Hussein's Baath Party; perhaps because his uncle had already been arrested on suspicion of associating with an illegal religious group. Ever since, though they have had no word from him, Mr Khadi's family has been hoping against hope that he is still alive.

Last week, his brother Amir was wandering around the notorious and now empty Abu Ghraib prison on the western outskirts of Baghdad, looking for him. On the verge of tears, he asked your correspondent if he had seen or heard of an underground network of cells that some people talked about. The discussion took place 100 metres away from the execution block, with ropes still hanging above the holes where lever-operated trap-doors could be pulled open to send two men to their deaths at the same time. Over the prison entrance runs the legend: “There is no life without the sun. There is no dignity without Saddam Hussein.”

Reuters

Into Saddam's torture cells

In the interrogation centre of the *mukhabarat*, or secret police, in the heart of Baghdad, many other Baghdadis were looking forlornly for their relatives. The messages scrawled on the cell walls are heart-rending. “My beloved ones,” wrote one prisoner simply, “Safa, Ali, Marwa.” Others drilled a little hole for every day they spent here. Blindfolds and cloth manacles still litter the floor.

For the moment, Baghdadis remain far too stunned by the incredible speed of the collapse of the Saddam regime to begin to wreak revenge on those who tortured, imprisoned and killed their families. But there is little doubt that, over the next few weeks and months, vengeance will come.

One reason for this, apart from any other, is that there is no one to stop it. There is no government in Iraq, no authority in Baghdad and little law and order. Despite claims by the United States to be tackling the problem, more official buildings were blazing in the city on April 14th than at any time since the war began. Some said this was the work of looters; others thought it was done by remnants of the old regime, covering their tracks by burning archives.

Security is improving slowly. Some policemen have begun to try to get back to work, but first they have had to try to reclaim their stolen vehicles. For the moment, they are riding round with the American troops in their army trucks, stopping any new white car that looks like one of theirs. Fifty out of 70 ambulances were looted from the central ambulance station; so ambulances are being stopped too, and seized if they are not being used for their proper purpose.

Some sort of order is coming from the clerics, who are putting out appeals in mosques for looters to return property, especially hospital equipment. Guiltily, some are doing so. Public transport has begun to run again, sparingly, allowing more doctors to get to the chaotic hospitals. But no one else is running things. Most civil servants have seen their offices trashed, if not burned. Besides, in the absence of a government, who is going to pay them? Baghdadis are incandescent with anger about this. They cannot understand how the Americans could have swept away Saddam with no plan to fill the power vacuum left

behind him.

Mouayed al-Windawi, a professor of modern political history at Baghdad University, is relishing his new-found freedom of speech. Despite the mounting anger against the Americans, he believes they have a period of grace, which will last about three months. In this short space, they need to convince people that their intentions are honourable and that they mean to work in the best interests of Iraqis. Many Iraqis, he feels, are prepared to work with the Americans to get the country back on its feet—but not if America moves rapidly towards using Iraq as a springboard for military action against Syria or Iran.

In the meantime, Baghdadis and Iraqis wait impatiently to see what is in store for them. Unscientific polling on the street shows deep suspicion of all the politicians who have spent the last years and even decades in exile. Although Iraqis do not reject some role for these men in a new dispensation, they certainly do not want them to be handed top jobs by what they regard as their foreign sponsors. Such positions, they believe, should be reserved for qualified and respected Iraqis who have stayed in the country and shared its fate.

Above all, and as soon as is practically possible, argues Mr al-Windawi, Iraqis would like to be asked what they want for themselves. “This war was imposed on the nation,” he says. “If people had been asked, they would have said ‘no' to war and ‘no' to the president [Saddam Hussein]. But nobody did ask.”

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The Nasiriya meeting

Find two Iraqis who agree

Apr 17th 2003 | CAIRO
From The Economist print edition

America's ring-holder realises what he has taken on

BY APRIL 15th, the first meeting of opposition leaders inside Iraq—originally billed as a significant step to producing a representative interim authority—had been reduced to what one American official described as “facilitating conversations among the Iraqis”. The louder dialogue was between those Iraqis who accept the need for such “facilitation”, and those who reject America outright.

The meeting itself, held by American invitation at an airbase near Nasiriya, went fairly smoothly. The 75 Iraqi delegates included prominent exiles as well as local tribal and religious leaders. A few coalition officials joined in, among them Jay Garner, the head of the interim administration, making his first appearance on Iraqi soil. The delegates agreed to a 13-point programme that called for a democratic, non-sectarian government, while rejecting political violence or the imposition of leaders by outside forces.

Few Iraqis would oppose these aims, but many seem to dispute the legitimacy of those promoting them. The naysayers are moved by a range of motives. Hostility to America, swelled by the violence of the invasion and the unrestrained lawlessness that has followed, is one obvious problem. Many Iraqis also resent the intrusion of what are seen as soft-skinned exiles. Ahmed Chalabi, who heads the Iraqi National Congress and who has appeared in Iraq armed with American cash and backed by an 800-man militia, is seen as one of these. Aware of the controversy he provokes, Mr Chalabi delegated a junior representative to attend the conference.

Iraq's ethnic and religious schisms add to the tension. Resentment of the Kurds is strong not just among Arabs in northern Iraq, but among nationalists throughout the country made wary by the backing they have received from America. The most dangerous rejectionists are those Shias who look for guidance to conservative religious leaders. Iraq's Shias do not speak with a single voice. The holy city of Najaf has been wracked by tensions between rival schools, while the call of one cleric at the Nasiriya conference for separation between religion and state was met with derision from many co-religionists. But the most deep-rooted Shia factions, including the Iran-based Supreme Council for the Islamic Revolution in Iraq (which boycotted the conference), are solidly wary of American intentions. The squalid slums of eastern Baghdad appear to have already fallen under the control of Shia militias aligned to anti-American clerics.

In Nasiriya itself, an estimated 20,000 citizens heeded calls from mosque loudspeakers to demonstrate against the opposition meeting. “Yes to freedom, yes to Islam, no to Saddam, no to America,” they chanted. Hundreds of protesters in Baghdad shouted similar slogans outside the Palestine Hotel for several days running. In Basra, demonstrators denounced Britain's choice of a tribal sheikh to run the local council, demanding that Shia religious leaders do the job. In Kut, crowds shouting “No Chalabi!” prevented marines from reaching the town hall, where a local Shia cleric has taken office. Serious violence broke out in Mosul.

American officials still believe that once Iraqis get used to their new freedoms, and once America gets a chance to soothe fears by explaining, and then proving, its good intentions, Iraqis will come to appreciate their role. Meanwhile, the battered country remains a hornet's nest.

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Iraq's culture

After the vandals

Apr 17th 2003
From The Economist print edition

A helping hand from Great Russell Street

Get article background

EPA

Almost as sickening as human death

ONE quick response to the catastrophic looting of the National Museum in Baghdad over the past week, and to the destruction of other cultural sites in Iraq, has been the formation of a “cultural coalition” between the British government, the British Museum and UNESCO. Its mission is to prohibit the illicit selling of antiquities both in Britain and internationally, as well as to deploy teams of experts to help repair Iraq's cultural heritage. “The protection of culture is not an optional extra,” said Tessa Jowell, Britain's culture secretary. “It is a duty we owe to the Iraqi people.”

British forces have been able to protect the Basra museum. But the museum in Baghdad, looted over a week ago, had not received any armed guard from American troops by April 15th. Its researcher, Donny George, and several of his colleagues have been sleeping in the devastated galleries in a vain bid to protect it. Mr George believes that priceless treasures, including a Sumerian vase from 3000BC, have been looted to order. Similar looting took place at the end of the first Gulf war, and only a handful of the antiquities stolen then have been recovered.

“This is a loss to world civilisation as well as Iraq,” said Neil MacGregor, director of the British Museum, as he pointed to an image of the world's first writing, a cuneiform ceramic tablet from ancient Sumeria. “Imagine what history we lose when one of these is smashed.”

As soon as safety allows, the British Museum will send a team of curators and conservators to Iraq. In the meantime, it is sending an archaeologist to assess the damage and organising, with UNESCO, a conference of world experts on Iraqi archaeology at the British Museum on April 29th. Mr MacGregor is also advising the Department of Culture on sending professionals to the American interim authority, OHRA, to ensure that their plans for rebuilding Iraq include recovering its culture.

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Arab reactions

Who's next?

Apr 17th 2003 | CAIRO
From The Economist print edition

America's new mood inspires both fear and unity

Get article background

TABLOID headlines in Cairo express shock and anger at the speedy American conquest. “Crusaders Occupy Iraq”. “Marines Molest Iraqi Women”. “Shame Will Follow Our Infidel Leaders to the Day of Judgment”. And yet, amid the pained chagrin sweeping the Arab world, there is a whiff of relief that the war is over.

Traffic in Arab capitals, which had thinned dramatically during three weeks of mass, manic television watching, returned abruptly to normal within a day of Baghdad's fall. Just as abruptly, the narrative that had emerged as a dominant Arab view of the war—noble Iraqi resistance against a monstrous infidel invasion—dissolved into a confusion of counter-narratives. The toppling of statues was staged, said some. The looting in Iraqi cities was sparked by Kurdish spies, said others. Saddam's surrender proved that he was a CIA agent all along, claimed more. With time, however, truculent plot-mongering has given way to soul-searching about what many feel to be the biggest humiliation borne by Arabs since Israel's victory in the six-day war of 1967.

Few had actually expected Iraq to win. To most Arabs, it was simply heartening to witness real physical resistance to American might, rather than the hollow words of their own governments. The hope was that Iraq's fighters would teach the superpower a lesson, deflating its perceived arrogance and repairing their own punctured self-esteem. Such hopes soared during the first half of the fighting, with memories revived of a mythical pan-Arab solidarity; but by the end, the main memory refreshed was that of another Arab capital being occupied by a western army.

The fear now is that America may be unstoppable and, worse, that the Bush administration will now try to pacify the region on Israel's terms. The new verbal offensive against Syria has heightened such anxieties. Damascus has been accused of sponsoring Arab volunteer fighters, harbouring fugitive Iraqis, concealing chemical weapons and promoting terrorist groups. America has threatened sanctions unless, in the words of Condoleezza Rice, the national security adviser, Syria “signs on to a different kind of Middle East.”

Much of the criticism is not new. Syria has long explained that its backing for groups that America deems terrorist is more moral than material, and based on its support for their resistance to Israel. In the past, it has tweaked such thorns in America's side to gain a leverage in peace talks that its feeble economy and army cannot sustain. America is now signalling that it will no longer play this game.

Few expect that it plans to deal with Syria in similar fashion to Iraq. The general appreciation is that it will not need to. Not only is Syria strategically weak, but its government has just isolated itself within the region by noisily stoking sympathies with Iraq even as other Arab leaders were trying to calm their own publics. Much as the “Arab street” may cheer Syrian obstruction of America, and much as the threats to Syria from Israel's hardline government stir further anger, no major Arab government is likely to come to its aid.

Even so, the shock of American intervention has prompted tentative moves to unify Arab ranks. The regional order, enshrined by the creation of the Arab League in 1945 and the signing of an Arab mutual defence pact in 1950, was tattered even before Iraq's fall. Amr Moussa, the Arab League's secretary-general, is now speaking of urgent amendments to its charter.

Saudi Arabia is convening an emergency meeting of regional foreign ministers to forge a joint platform

regarding Iraq's future. So far, they agree on one thing: that America's occupation must be short. Faint signs are also emerging of movement towards internal reform, even among laggards such as Egypt and Saudi Arabia. During the war, many Arab countries saw vocal street protests that left participants angry at their lack of influence. At the same time, thoughtful Arab commentators have noted that the underlying cause of Iraq's weakness was that its state was built on fear rather than persuasion.

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How Mosul fell

After victory, mayhem

Apr 17th 2003 | MOSUL
From The Economist print edition

The city surrendered quietly. Then the terror started

TO SOME surprise, Mosul fell with barely a bullet fired. “They just melted,” said one American colonel of the Iraqi forces supposedly defending Iraq's third-largest city. He sounded disappointed. If the regular army refused to fight, then the colonel had expected the dreaded Fedayeen, who were said to be stalking Mosul's streets, to offer at least token resistance.

After all, the pearl of the north, as the city is often called by Iraqis, is also the heartland of Sunni Arab nationalism. A stronghold of Saddam's regime, it is home to the 5th Army Corps as well as the Adnan division of the Republican Guard. But resistance in Mosul did not just fall away. It was pushed—by an extraordinary “uprising” co-ordinated by Arab and Kurdish tribal chiefs who hold sway over key Mosul neighbourhoods.

The plot was explained to *The Economist* by one of its central figures, a retired Iraqi general who is also the leader of a powerful Arab tribe in the city. The general, a distinguished gray-haired man in blue pin-stripes, said the idea was to tug at tribal loyalties among key military and security officials. The way would then be open for a formal surrender of the city to the coalition forces.

Everything went according to plan. The regime was instructed to put down its weapons and go home. And go home it did. For the first time in 35 years, Saddam's fortress of the north was left naked and defenceless. And yet the Americans did not enter the city; they stayed away. Instead, they demanded a formal surrender by the commander of Iraq's Fifth Army, who by that time had disappeared.

The resulting power vacuum was soon filled by lawlessness. What began as good-natured looting of buildings and offices in Mosul's central administrative district quickly and alarmingly descended into mayhem. The city's museum, its university and its theatre were ransacked and torched. Neighbourhoods were driven to set up their own checkpoints to prevent armed criminal gangs piling in to steal cars and loot private homes.

At last the American reinforcements came. But for terrified and angry Mosul residents, they came too late. Doctors at the emergency hospital reckon as many as 100 may have died. As special operations soldiers and marines struggled to stabilise the city, patrolling the toughest districts, imams broadcast messages from their mosques appealing for calm.

Lieutenant-Colonel Robert Waltemeyer, the bluff but intelligent special forces commander, seems to be trying his best. Wisely, he spent his first few days in the city meeting tribal and civic figures. He urged a general disarmament, and held out the promise of a representative assembly. He also brought in a few thousand marines to make the American presence more visible.

Yet still the guns continued to blaze. On April 15th, a public address by Maashan Juburi, a prominent member of the Iraqi opposition who had been declared “governor” of the city, ended in yet more bloodshed. Under attack in the centre of the city, marines returned what they termed “accurate fire” at gunmen hiding in an angry crowd. Many were killed. Amid such convulsions of violence, American military commanders need to work out a strategy for security and stability, and fast.

As one gunshot victim despairingly said from his hospital bed, “We didn't get rid of Saddam for this.”

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Shia power-struggles

Enter the ayatollahs

Apr 17th 2003 | AMMAN
From The Economist print edition

Turbanned clerics continue the war by other means

UNTIL last week, Ayatollah Mohammed Fadlallah of Hizbullah was the only prominent Shia cleric in the Arab world spouting politics from his pulpit. Now dozens are at it. Free of their Baathist shackles, they appoint neighbourhood committees, declaim *fatwas* from their mosques and turn their prayer-halls into depots for penitent vandals to lay down their loot. In short, the war has spawned a profusion of mini-Hizbullahs across central and southern Iraq.

Dazed by the new activism, Grand Ayatollah Ali Sistani, the prime *marja*, or spiritual reference, for Shias from Beirut to Bahrain, cut a forlorn figure. Schooled in the quietism that Saddam required, the 75-year-old was challenged for Shia leadership by a 22-year-old upstart, Moqtada Sadr. Last week Mr Sadr's club-wielding thugs besieged Mr Sistani's house, demanding that he recognise their man as the *marja* within 48 hours or leave Iraq. The old man ran away.

Mr Sadr's claim stems from his father, Mohammed Sadiq al-Sadr, a charismatic cleric who was shot dead four years ago after leading a religious revival among the Shia urban poor. In the wake of his death, his acolytes formed the only underground opposition that Saddam's torturers failed to uproot. Last week his followers celebrated liberation by renaming Saddam City, Baghdad's sprawling Shia shantytown, Sadr City.

The conservative and Persian-born mainstream has vowed to resist the Arab Sadrs, but the war for the Shia mantle is turning bloody. Days after returning from his exile in London, Abdul Majid al-Khoei, the son of a Grand Ayatollah from the 1980s, was stabbed to death in the shrine of Najaf (see article). He had claimed to speak for Mr Sistani. His death prompted another exiled son of a Grand Ayatollah, Muhammad Baqer al-Hakim, to boycott the American-led talks on a new government for Iraq, and consider deploying his Iranian-trained troops in an anti-American *jihad*.

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The economy

The great Easter budget battle

Apr 17th 2003 | WASHINGTON, DC
From The Economist print edition

Despite a repulse from Congress, the Bush administration and conservative Republicans are still fighting hard for big tax cuts

Get article background

AS MEMBERS of Congress enjoy their Easter break, George Bush's hopes of winning a huge tax cut look fairly meagre. For weeks, two moderate Republican senators, George Voinovich of Ohio and Olympia Snowe of Maine, worried by the rising budget deficit, have refused to support a tax cut of more than $350 billion over ten years. That is less than half the $726 billion Mr Bush originally proposed, and well below the $550 billion the House of Representatives (and implicitly the White House) compromised on.

On April 11th, the two rebels voted to support the official budget resolution, which outlines Congress's tax and spending plans, but only after they won a public pledge from Charles Grassley, the top Republican tax-writer in the Senate, that no figure larger than $350 billion would pass this year. Mr Grassley is known for keeping his word. But it is already clear that Team Bush is not giving in without a fight.

Ari Fleischer, the White House spokesman, claimed this week that lowering the tax package from $550 billion to $350 billion would cost 425,000 jobs this year and next. In a speech on April 15th, the day by which Americans must file their income-tax returns, Mr Bush argued that tax relief of at least $550 billion was needed to make sure that the economy grows. Far better, he suggested, would be to have the full $726 billion package he originally proposed. That, he claimed, would create 1.4m new jobs by the end of 2004.

To hammer the point home, Mr Bush has sent 25 officials to tout the virtues of tax cuts at 57 events in 40 cities in 26 states over the next two weeks. Haunted by the potential parallel with George Bush senior, who won a war and lost an election as the economy faltered (see article), this White House sees big tax cuts as the centrepiece of a bid to revive the economy.

This does not mean that its argument makes sense either economically or electorally. Of course tax cuts can help to stimulate the sluggish economy (they have done just that over the past couple of years). But the best gauge of the economic effectiveness of a stimulus is not, as the Bush people repeatedly say, the tax cut's ten-year price tag. What matters is, first, the type of tax cuts that are introduced (and the

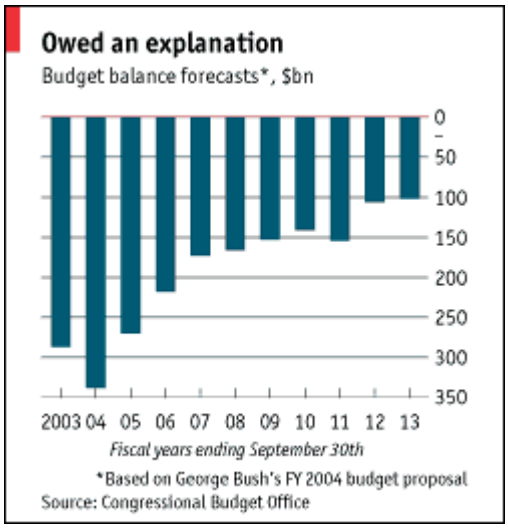
immediate stimulus they provide) and, second, the balance between this short-term boost and the long-term cost to the government in terms of lost revenue, higher borrowing costs and so on.

As for the electoral impact, this is unclear. To be sure, Americans are turning their minds from war and terrorism to the ills of the economy. According to a recent Gallup poll, 48% of Americans regard some aspect of the economy as the most important problem facing the country, the highest percentage for seven years. Americans' support for Mr Bush's handling of the economy is also on the rise.

The degree of support for big tax cuts, however, is harder to read. According to a new NBC/*Wall Street Journal* poll, 72% of Americans think that providing economic stimulus is more important than curbing deficits (compared with 22% who don't). But in the same poll a plurality of respondents said that Congress should not pass Mr Bush's tax plan. And in another recent poll, by the Associated Press, six out of ten Americans said this is not the time for tax cuts that worsen deficits.

The aim of the White House's public campaign is to generate enough grass-roots support to persuade the Senate's recalcitrant moderate Republicans, or perhaps some conservative Democrats, to change their minds and support a larger tax cut. But tax cutters are also looking at crafty ways around the Senate blockage.

The $350 billion tax limit now implicit in the budget resolution is the maximum cost for tax cuts that are “filibuster proof” (ie, which need only 51 votes rather than 60 to pass the Senate). However, the resolution allows a much higher figure—$1.3 trillion—for overall tax cuts. So why not take extremely popular tax cuts, such as increasing the child tax credit, out of the reconciliation figure and hope that 60 senators support them? The earmarked $350 billion could then be devoted to Mr Bush's beloved but controversial elimination of dividend taxation. This is also the only new tax cut in Mr Bush's package (the rest is simply accelerating or making permanent his 2001 tax cuts), so Mr Bush would eventually get most of what he wants.



Such schemes would have to find a way round Ms Snowe, who has a pivotal seat on the Senate's tax-writing committee. She seems far less convinced by the dividend-tax plan than by the need for more conventional stimuli, particularly upping federal assistance to the states. Mr Bush's people snipe that such moderate Republicanism has less to do with fiscal probity than a suspiciously Democrat-like love of government spending.

In fact, the inability to control spending is a widespread disease in Washington—as shown by the money Congress voted for the war in Iraq. The White House originally asked for $74.7 billion in a supplemental bill to pay for the military operations, extra homeland security and foreign aid for countries such as Turkey and Egypt. The final bill that emerged from Congress was worth $79 billion and included yet another bail-out for the airline industry along with several rashers of prime bacon (such as $110m for an animal-disease laboratory in Iowa). Much of this pork was the work of Mr Bush's Republicans.

The budget resolution goes some way towards deterring that kind of behaviour, by reintroducing “spending caps”. That means 60 senators must vote for any spending that exceeds agreed levels. And these totals are relatively tight. The plan is to have $784 billion of overall discretionary spending in fiscal 2004.

But the budget resolution does nothing to tackle the biggest long-term problem—spending on entitlements, such as Medicare, the health-care system for the elderly. Conservative Republicans in the House tried to cut entitlements, but they were quickly foiled. The White House's plan to control Medicare spending by encouraging older Americans to join managed-care systems has been all but abandoned. Instead of spending cuts, the budget resolution contains the promise of an extra $400 billion over ten years for a new prescription-drug benefit.

And that is the dirty secret of the battle about tax cuts: neither side is fiscally pure. Mr Bush is trying to disguise a huge tax cut as a short-term stimulus. His opponents' claims to prudence evaporate at the sight of the first entitlement. And the long-term fiscal picture continues to deteriorate.

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A threat to Seattle

Going, Boeing...

Apr 17th 2003 | SEATTLE
From The Economist print edition

AP

But would assembling the 7E7 somewhere else make all that much difference?

Get article background

SINCE 1954, when the Boeing company unveiled the Dash-80 jet that evolved into the Boeing 707, every commercial jetliner the company has designed has been built in factories dotted around Seattle. In Renton, south-east of Seattle, on a site where Boeing built B-29 bombers during the second world war, it turns out the 737 and the 757. In Everett, north of Seattle, its factory, which includes the hugest building in the world, produces the big 747s, 767s and 777s.

Those factories, however, were built in a very different time, when Boeing ruled the commercial-aircraft skies and commercial aviation itself was booming. Today Airbus, a European consortium, matches Boeing almost aircraft-for-aircraft in both sales and production. And Boeing's commercial-airline customers, like everybody else's, are gasping after repeated body-blows: the terrorist attacks of September 2001, the Iraq war, and now the outbreak of Severe Acute Respiratory Syndrome (SARS) in Asia, which is making life difficult for Cathay Pacific and other big Boeing customers in Asia.

So Boeing's leaders are looking for any way to cut costs. In early April the company terrified Seattle with a gently spoken announcement that it may build its next commercial airliner somewhere else. This two-engine aircraft will be called the 7E7; the letter between the numbers stands for “efficient”, a virtuous word that is itself a sign of the times. The airliner is intended to carry 200-250 passengers and yet burn a fifth less fuel than similar-size aircraft flying today, such as the Boeing 757 and Airbus A330.

Is the company bluffing about moving its factories? Traditionalists point out that the Big Bird has been tied to the region ever since William Boeing built his first aircraft in his boathouse on a Seattle lake in 1916. The only aircraft Boeing currently makes outside the region—the 717 in California—was a McDonnell-Douglas design that Boeing inherited when it bought the company. There are a lot of jobless in Seattle; over the past decade, the company has laid off tens of thousands of people, some of whom are still looking for work.

On the other hand, Boeing's managers have long complained about the Seattle area's chronic transportation woes and Washington state's high taxes. In 2001, Boeing pointedly moved its corporate headquarters to Chicago. And since then the state has done little to sharpen itself up. In 2002 its legislature refused to pass a petrol tax that would have paid for $8 billion in road improvements. Now it is wrestling with a much smaller tax scheme that would barely start to meet the state's needs for new

roads, trains and ferries.

Other states would offer Boeing plenty of incentives to move to them. Illinois produced $41m in various blandishments just to get Boeing to bring its small headquarters staff to Chicago. Should Boeing build the 7E7 in Texas (one state being talked about), it would find cheaper land, a cheaper workforce and much less traffic. “Boeing has been pressured to death [to cut aircraft prices] by its customers, and now it's pushing that pain down to everyone else,” says Richard Aboulafia, a man who keeps an eye on airlines at the Teal Group, based in Virginia. It is even possible that Boeing could choose an overseas site—though Phil Condit, the company's boss, would face a firestorm if he did.

In the two weeks since Boeing hinted at the 7E7 move, politicians in Washington state have tried hard to keep the 7E7 there. Maria Cantwell, a Democratic senator, has proposed federal money for an aerospace-research institute at the University of Washington which would study the light aluminium alloys Boeing may use in the 7E7. The threat could also galvanise the state's legislature into providing the cash needed for better transport.

These measures are probably too little, too late, says David Olson, of the University of Washington. But the issue is not yet decided. Seattle still holds some good cards. Boeing has thousands of skilled and well-trained workers in the area, hundreds of whom have recently been laid off as production slows on the 747 and other airliners. The slowdown has also given the company plenty of spare factory space at both the Renton and Everett plants.

Anyway, the huffing and puffing over where Boeing assembles the 7E7 may turn out to be largely irrelevant. Assuming that the company goes ahead with its hopefully hyper-efficient new airliner—and the signs are that it will—the 7E7 will break new ground in terms of the way Boeing builds its aircraft. Subcontractors scattered around the world will probably do most of the manufacturing work, and the new airliner's American “factory” will turn out to be not much more than a building where technicians bolt together ten or 11 large pieces and hook up some wires.

Airbus works that way at its A330/340 plant in Toulouse, France. There, a mere 300 workers or so are enough to assemble components already wired, plumbed and insulated. That compares with the 7,400 Boeing workers who build the 747, 767 and 777. Whichever state wins the “7E7 factory” may not win all that much of anything. But it could pay plenty for the privilege.

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Regulating vice

Blown away

Apr 17th 2003 | NEW YORK
From The Economist print edition

New York's tough cigarette laws confront reality

BACK in December, with relatively little controversy, New York City voted to ban smoking completely in restaurants and bars, extending the existing ban on smoking in workplaces. The law, championed by the city's mayor, Mike Bloomberg, came into effect on April 1st. Yet already, it is becoming abundantly clear that passing a cigarette ban will be far easier than enforcing it.

The most notable reaction occurred in the early hours of April 13th outside a fashionable bar on the Lower East Side when a bouncer collared an errant smoker. A melée ensued that eventually led to the bouncer's death from what appeared to be a stab wound. Three people, including the smoker, were arrested and then released. No weapon has been found and the witnesses seem to have lost any memory of what occurred. Services for the victim will be conducted by his brother, a church pastor who has previously sermonised against smoking but now seems to have changed his mind about banning it.

Whatever the truth behind this unfortunate incident, resistance to the ban seems to be unfolding across the city. The rebellion has an economic element. Takings in bars are said to have dropped by 20% since the ban was introduced. Some principled New Yorkers also seem disgusted at Mr Bloomberg's nannying. But much of the truculence stems from the discovery that the cure is more trouble than the crime.

Many bars and restaurants are politely asking patrons to cease smoking. But as with Prohibition in every neighbourhood, word is getting out about the bars where the bartender is just too busy to cite the new regulations, regardless of how unbusy the bartender might be. At nice hotels, obsequious waiters are reluctant to tell potential big tippers to douse their cigars. Some bar owners are even asking the city to waive a law that prohibits them from employing policemen directly, so they can get somebody else to scold their customers.

Nightclubs pose an even odder problem. Not long ago, a successful night out in New York focused on bribing or cajoling your way into such dives. Now, much of the in-crowd, including (children, do not read this bit) many of the nicer looking ones, are to be found standing outside with a cigarette and a drink, risking prosecution for violating the city's long-standing ban on consuming alcohol in the streets.

Hoping to ease the transition, the police have made no arrests and, in any event, they are far more concerned at the moment by threats of terrorism. The city's health department, which is partly responsible for enforcement, has courageously announced that for the month of April it will hand out warnings, as opposed to fines, for infractions. No records have been kept of anyone receiving a warning so far.

Mr Bloomberg is pressing on. The city, despite a vicious budget crunch, is now adding special inspectors to put muscle into the new law. Twelve of them will soon be on the beat, and they had better get busy. The cigarette police have 14,000 sites to inspect.

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Prisons for youngsters

Tallulah tales

Apr 17th 2003 | TALLULAH, LOUISIANA
From The Economist print edition

A particularly ghastly jail

PEOPLE in America's growing “juvenile corrections business” try to avoid the word “prison”. But no one would mistake the grim fortress at the edge of this down-at-heel town for anything else. Just past a string of junk shops, decrepit houses and long-shuttered storefronts sits a series of dull beige buildings surrounded by a chain-link fence and razor wire.

Tallulah is the most notorious of Louisiana's four youth prisons. After it opened under private ownership in 1994, the company that ran it tried to cut costs by skimping on salaries for guards and on food, clothing and schooling for inmates. Guards maintained control by beating inmates. Conditions improved after the state Department of Corrections took over in 1999, but reports of violence continue. One young man had his jaw broken by guards. On April 14th a local juvenile-court judge, Mark Doherty, began hearings on whether the prison should be closed.

Critics maintain that Louisiana's whole juvenile-justice system is unfair and counter-productive. Fewer than one in ten of the 1,300 youths the state locks up at any given time are found guilty of murder, rape, armed robbery or other seriously violent crimes. Most are first offenders, and most have been found guilty of property and drug crimes, not violent ones. Some are younger than 14. Black children who misbehave are more likely to go to jail in Louisiana than white ones who commit the same offence. Rehabilitation programmes are minimal: most inmates commit more crimes after their release.

These worries are shared not just by the usual liberal do-gooders but also by tax-conscious conservatives who chafe at the high costs of incarceration, which come to about $55,000 per inmate per year. In March a commission of state legislators called for closing down Tallulah and using the savings to pay for “halfway houses”, day treatment, counselling and other programmes. The reform plan also calls for responsibility for juvenile justice to be removed from the state's Department of Corrections.

Passing a law to do this will not be easy. A complex web of contracts obliges the state to pay the construction debt for Tallulah, which it doesn't own, even if the state shuts down the prison. (The actual owners are three friends of Edwin Edwards, a former governor who is now in federal prison for unrelated misdeeds.) And the state's secretary of corrections, Richard Stalder, has some powerful defenders.

Many of Louisiana's district attorneys and sheriffs instinctively back prison wardens rather than penal reformers. Although conditions might seem Dickensian now, they are less chaotic than they were before Tallulah was built: in the early 1990s juvenile prisoners slept in broom closets and under other inmates' beds. So far the state's Republican governor, Mike Foster, has not taken a position on the reform plan, but his closest adviser used to be a district attorney in rural Louisiana.

Ever since Huey Long's days, public services in Louisiana have had as much to do with providing jobs as with looking after the needy (or the criminal). This is a state that prefers to care for its elderly in an elaborate, labour-intensive system of private nursing homes rather than spend money on nurses visiting people in their homes or on other forms of preventive care. Tallulah may be dangerous, inefficient and counter-productive. But the juvenile-correction system employs 1,800 people.

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Dictatorial mayors

Baghdad by the lake

Apr 17th 2003 | CHICAGO
From The Economist print edition

Mayor Daley overreaches himself

A DICTATOR on the rampage; airfields destroyed; a pre-emptive strike; calls for outside intervention to bring democracy. It is not difficult to see why one cartoonist has lampooned Richard Daley's Chicago as “Baghdad by the lake”.

The row began last month, when Mr Daley, who recently won a fifth term as the city's mayor, sent, under cover of darkness and without warning, a squadron of bulldozers to rip up the runway at Meigs Field, a small airport on the edge of Lake Michigan mostly used by private pilots. When the sun came up the next morning the combative Mr Daley, dubbed “the Red Baron” in indignant aviation circles, declared that Meigs, which is just opposite the city centre, had posed a terrorist threat to the security of Chicago's skyscrapers.

Chicagoans have grown accustomed to strong-arm tactics by Mr Daley (who is the son of the equally mild-mannered 1960s mayor). But the midnight raid on Meigs set new standards of brashness. Mr Daley's commandos left 16 planes stranded on the airstrip, which is surrounded on three sides by water. Neither the Federal Aviation Administration nor the Department of Homeland Security was consulted.

AP

Daley and the damage he did to Meigs

Now pilots are fighting back in the courts. A Cook County judge has given them some hope, rejecting Mr Daley's attempt to have a suit filed by “the Friends of Meigs” immediately dismissed. The pilots have also won a temporary restraining order that prevents further destruction at the airport. And a federal suit, filed by the much larger Aircraft Owners and Pilots Association, is still pending.

The city's hitherto tame business establishment, which rather liked using Meigs, is miffed. Some members of Congress have suggested the raid might affect Chicago's future requests for federal transportation money. Worse, Tom Ridge, the homeland security czar, has expressed doubts that the airstrip was closed for security reasons.

As Mr Ridge rightly points out, Mr Daley's intention to close down Meigs predates September 11th 2001. The mayor, who has long wanted to turn the lakefront site into a park, even managed to get the airstrip closed for a time in 1996. In 2001 he agreed to keep it open as part of a deal whereby George Ryan, the Republican who was then governor, agreed to support an expansion of Chicago's main O'Hare airport. Mr Daley says that deal died when the O'Hare plan he still supports foundered in Congress last year.

Alas for the mayor, he may not get his lakefront park any time soon. The city is short of money, and the assault on Meigs could make the site less attractive to the businessmen who have helped to pay for other green projects. Many ordinary Chicagoans actually prefer a park to an airstrip serving a tiny elite, but the mayor's tactics have incensed them too. The uproar may die down; but the feeling at the moment is that the normally sure-footed Mr Daley may have overreached himself.

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Like father, like son?

Apr 17th 2003
From The Economist print edition

The question that still haunts the Bush presidency

Get article background

HISTORY does not make a habit of exactly repeating itself. But in the Bush family it has a damn good try. George Bush has, so far, loyally trodden in his father's footsteps: from Andover and Yale to the oil business; from public service to the presidency; and from the White House to the Gulf.

Will the similarity end there? Now that a second Bush is enjoying the fruits of victory abroad while worrying about a faltering economy at home, it is hard not to suspect that history is about to repeat itself. Will he be the second Bush in a row to don the victor's laurels from Mesopotamia, only to see them turn to dust by the Capitol? The possibility brings mounting excitement on the American left, and a nagging unease on the right.

Prophets of regime-change argue that the home front is far more important than foreign policy in deciding elections. (Ask the ghost of Winston Churchill as well as the elder Bush.) And they point to some pretty worrying numbers. America has lost some 2m jobs since Mr Bush took office. Bill Clinton presided over the creation of 23m new jobs, George Bush senior created 2.5m. The current president could be the first since 1945 to go into an election having supervised a net growth in unemployment. The Dow Jones Industrial Average has fallen by almost a quarter since January 2001. Now some economists are raising the prospect of a double-dip recession, and many more argue that the economy is unlikely to turn around in time for the president to reap the benefits in November next year.

Yet this economic determinism has two big flaws. The first is that George Bush senior did not lose only because of the economy. He lost because his political machine fell apart. He alienated conservatives by breaking his promise not to raise taxes. He ignored domestic issues. The White House was divided into warring fiefs. After Lee Atwater, the first Bush's political Svengali, had died in the middle of his presidency, complacency took over. At an Oval Office meeting in 1992, the president pointed to his chair and asked, “Can you imagine Bill Clinton sitting here?” Uproarious laughter. A few months later, it had happened.

In fact, Mr Clinton was an unusually good opponent—a natural politician of the sort that comes along only once in a generation. He sold himself as a new type of Democrat: tough on crime and foreign policy (he supported the first Gulf war) but brimming with bright ideas for the economy (remember all the excitement about training grants and public-private partnerships). And he had his own Atwater in the form of another hard-living southerner, James Carville.

This time round the political situation is almost reversed. Mr Bush is making sure that he does not repeat his father's mistake of ignoring the domestic front, pushing hard for tax cuts and producing schemes for reforming Medicare. The White House is as tightly run as it has been in a generation, despite simmering tensions between Colin Powell and the administration's aviary of hawks. The Republican right increasingly regards Mr Bush as a new Reagan. And Karl Rove has proved himself a worthy successor to Atwater, combining a broad vision of political realignment with an impressive grasp of the darker arts of politics.

Last year, Mr Rove masterminded a stunning victory in the mid-term elections. The Republicans now

control both houses of Congress and picked up 195 seats in state legislatures, their most impressive performance since 1928. Mr Rove is already revving up Mr Bush's re-election machine, which will not lack money. In 2000, the price for admission to the ranks of the “Pioneers”—Mr Bush's club of fund-raisers—was $100,000; now it is being raised to $200,000 or possibly $250,000. There is talk of raising $200m, twice as much as in 2000.

The Democrats, on the other hand, hardly have the look of a party that is ready to shove its way back into power. None of the front-runners has the Clinton touch: John Kerry is too tight-lipped and forbidding (and hails from liberal Massachusetts to boot); John Edwards is too boyish and inexperienced. Whereas Mr Clinton moved the party towards the centre, the anti-war movement and the candidacies of Howard Dean and Al Sharpton now seem to be tugging the Democrats to the left. They risk reviving a popular fear that has always stalked left-of-centre parties: that they cannot be entirely trusted with defence.

A different sort of war

Which brings us to the second flaw in the “like father, like son” argument. The second Gulf war was a very different affair from its predecessor. The first war was about restoring the balance of power in the Gulf region; it also came hot on the heels of the end of the cold war, which had boosted America's sense of security. No sooner had Saddam Hussein been slammed back into Iraq than Americans reverted to domestic affairs, renewing their clamour for a “peace dividend”.

The second Gulf war, by contrast, has been presented as part of the war against terrorism. Of course, not all Americans see the connection between defanging al-Qaeda and eliminating the state sponsors of terrorism. And the current victory in Iraq still needs to be consolidated (finding some weapons of mass destruction would help). But, given the ever-present threat of new terrorist attacks, no Democrat could risk disinterring Clinton's old slogan, “It's the economy, stupid”, or claiming that Mr Bush was wasting his time on foreign policy.

This is not to say that Mr Bush will romp home next year. Even Mr Rove expects a close fight. A striking number of Americans cannot bear the sight of Mr Bush, and will work their fingers to the bone to get rid of him. The Democrats will surely coalesce around a presentable figure of some sort. The White House hawks could even become deranged by the taste of blood. But anybody who expects the Bush electoral machine to collapse in 2004 as miserably as it did in 1992 is in for a surprise.

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Politics in Venezuela

Chávez rides high, for now

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From The Economist print edition

EPA

A year after Venezuela's failed coup, its president rules in triumph over a shattered and still-divided country

Get article background

ON APRIL 13th, the broad Avenida Bolívar in the heart of Venezuela's capital was a sea of flags in the national colours of red, yellow and blue, spattered with the scarlet berets of the political movement led by President Hugo Chávez. Behind the president, on his podium raised high above the crowd, was a vast billboard celebrating the “civilian-military unity” that, in official mythology at least, restored Mr Chávez and his populist “Bolivarian revolution” to power after he was briefly ousted in a coup a year ago.

Twelve months on, the balance of power in Venezuela has shifted dramatically. Mr Chávez celebrated the anniversary with an international “solidarity forum” paid for out of public funds. Those attending included Carlos Lage, Cuba's vice-president.

In contrast, Mr Chávez's opponents failed even to unite in commemoration of last year's events, in which 19 of their supporters were killed. Some of their rallies were cancelled for lack of support. The opposition is battered and leaderless. It is licking its wounds after the failure in January of its second all-out bid to topple the president, this one through a two-month general strike that strangled the oil industry. The government claims that oil production is now back to normal, despite the sacking of nearly half the state oil company's workforce.

But Mr Chávez is presiding over a country dramatically impoverished by 18 months of bitter political conflict. The strike alone cost Venezuela 7.6% of its GDP, according to the National Assembly's economic advisory office. Many private firms have closed down. Since December, in one household in three a family member has lost his job, according to DatosIR, a market-research firm. Datanalisis, another survey firm, predicts a 30% drop in purchasing power this year, in a country where half the population is barely managing to subsist. Crime is soaring.

The government has imposed exchange controls, and is itself close to broke. When Mr Chávez said last month that Venezuela would have to restructure its foreign debt, finance officials quickly contradicted him. But the government faces a fiscal deficit this year of close to 7% of GDP, according to LatinSource,

an economic consultancy. It is likely to press the Central Bank to print money, so inflation (31% during last year) is set to continue rising.

Vegetable gardens for the poor

The president brands the opposition as fascist coup-mongers. The opposition, for its part, accuses Mr Chávez of being an elected dictator. It is unclear, however, whom the hard-pressed Venezuelans will blame for their plight. Polls showed a slight increase in support for Mr Chávez during and after the strike. But that may not last. Officials fear that hunger could erode support for Mr Chávez among the poor. Beside the Avenida Bolívar, the government is sponsoring vegetable gardens.

The next test for both sides is likely to be a mid-term referendum on Mr Chávez's presidency. Under the constitution, this could be held from August onwards. Government and opposition negotiators said last week that they had reached a “pre-agreement” to hold such a vote, after talks mediated by the Organisation of American States. But there are many obstacles. The government has not even said whether it will sign the “pre-agreement”. Although the opposition in February gathered the 2.4m signatures needed to call a referendum, it will almost certainly have to repeat the exercise. There is no electoral authority in place. The National Electoral Council's term lapsed a year ago. A new council has yet to be appointed, because of wrangling not just between the two sides but within the opposition.

All this means that the government has many ways in which to stall a referendum. If cornered, Mr Chávez could simply precipitate an election. Since he is far more popular than any single opposition leader, he might win this—unless the opposition were to unite. There are no signs of that yet. The opposition is still shell-shocked after the strike. “Everyone is depressed and dispirited,” admits an opposition source. It lacks a clear strategy as well as a leader. But the campaign for the referendum could quickly galvanise it again.

For now, the heat has gone out of Venezuela's political conflict. But neither side is interested in a lasting accommodation. The threat of violence still lurks. As the *Chavistas* geared up for their celebration, a bomb damaged the building in which the talks between the government and the opposition were held. Similar bombs went off at the Colombian consulate and the Spanish embassy in February. If Venezuela is indeed enjoying a truce, it is an uneasy one which shows no sign of lasting.

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Latin America and the United States

The distance of neighbours

Apr 17th 2003 | MEXICO CITY
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Disagreements over the Iraqi war inject a new bitterness

Reuters

How Mexico sees its trade partner

BRUTALIST and squat, the American embassy in Mexico City has always had a forbidding air. As the fighting in Iraq raged, the ring of steel fences protecting it were pushed so far forward that they encroached on Avenida Reforma, one of the capital's main streets. That physical gap symbolises the political and emotional gulf that has opened up between Mexico and its main trading partner. Each day protests, and sometimes near-riots, took place outside the embassy, fuelled by a diet of gory, anti-American coverage of the Iraqi war in the Mexican media.

Most Mexicans have been thoroughly opposed to the war. That is why President Vicente Fox volunteered the information that he would not have backed a second resolution on Iraq last month had the issue come to a vote in the Security Council, of which Mexico is a temporary member. Chile's government, which holds Latin America's other Security Council seat, took a similar view.

Their stance reflects opinion across the region. Only Colombia—which receives some $500m a year in American aid—and several small Central American countries have given diplomatic backing to the United States. Across Latin America, polls have shown 70-85% against the war. As a result of his stand, Mr Fox has seen his popularity soar, from 66% to 80% in the past two months, according to Daniel Lund, a pollster. That should help him in a crucial election in July, in which his party hopes to achieve a majority in Congress. In effect, he has opted to put the governability of Mexico above his country's most important foreign relationship.

Latin America's hostility to the war is hardly surprising. Several countries in the region have in the past been on the receiving end of pre-emptive action by the United States, often to secure regime change. Nevertheless, after more than a decade of generally good relations, in which the United States has backed Latin American democracy, President George Bush had hoped for more support. Especially from Mexico: Mr Fox once basked in Mr Bush's embrace and the assurance that his country had “no more important relationship” than that with its southern neighbour.

Mexican officials are keenly aware both of American disappointment and of how vital American goodwill is to their country's commercial life. So they are doing their utmost to emphasise their value as crucial partners in those other “wars”, against terrorism and drugs. As the bombs began to fall in Iraq, Mexico rushed 10,000 more troops to its northern border with the United States, and 3,000 to its southern border, in a loud show of extra security against terrorist infiltration.

Will Mexico, and the rest of Latin America, now pay a price for their opposition to the war? Tony Garza, the new American ambassador to Mexico, says that he can detect no appetite for revenge (if only because most of this is directed at France). He adds that there will be “fallout”, but in Congress and governors' mansions. Mexico will have to go “congressman to congressman, issue by issue” to repair some of the damage.

Others are even less sanguine. Mexico and Chile are seen as having betrayed an administration that is not known for being forgiving, says Michael Shifter of the Inter-American Dialogue, a Washington think-tank. Rather than overt reprisals, “There'll be a lot of foot-dragging,” he says. It has already been noted that Mr Bush took four days to return a recent call from Mr Fox. Republican business managers in

Congress have detached from a bill approving a free-trade pact with Singapore approval of a similar pact with Chile, ensuring its (perhaps lengthy) delay.

There will also be extra help for friends. An additional $100m in aid for Colombia has been tacked on to the American bill for the war. Mr Bush last week received the five Central American presidents. The administration is likely to push ahead quickly with free-trade talks with their countries, begun in December.

But Latin Americans argue that for all Mr Bush's talk of making the region a priority, the record was already patchy. Mexico's hopes of an agreement on migration have come to nothing. The administration at first opposed financial bail-outs in Latin America, only to reverse that policy last year as Argentina's economic woes threatened to spread. In long-running talks for a 34-country Free-Trade Area of the Americas, the administration's approach appears calculated to preclude agreement with Mercosur, South America's main trading block. Its policy towards Hugo Chávez's disastrous rule in Venezuela has been inconsistent. And it has been accused of failing to provide extra anti-drug aid that might have prevented an explosion of unrest in Bolivia this year.

Many common interests still bind the continent together. And Mr Bush knows that Latino voters in the United States will play an important part in his chances of re-election. But the high hopes of a few years ago of a new partnership in the Americas have been dashed. A period of coolness in inter-American relations looks inevitable, even if it will not last forever.

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Quebec's election

A spring surprise

Apr 17th 2003 | MONTREAL
From The Economist print edition

Jean Charest has shown that a good Quebecker can be a federalist

PERHAPS the arrival of spring brought with it a sudden desire for change. Whatever the reason, in the final few days of Quebec's provincial-election campaign, voters swung away from the ruling, secessionist, Parti Québécois (PQ), and handed a swingeing victory to Jean Charest and his Liberal Party. In doing so they remained true to their record since the 1970s of never letting a party rule for more than two consecutive terms. They also buried the glowing embers of Quebec separatism—at least for a while. "Quebec's leadership will make Canada a stronger place," said Mr Charest in his victory speech.

Throughout the campaign, polls had shown that over half the voters were happy with the PQ, and preferred its leader, Bernard Landry, to Mr Charest. But on polling day on April 14th they had had a change of heart. With 46% of the vote, the Liberals took 76 seats in the 125-seat legislature, while the PQ won 33% and 45 seats.

Mr Charest promises to cut Quebec's high taxes, while also improving its health and education systems. But his main achievement was to convince enough French-speaking Quebeckers that the province's interests are safe with him. A minister in the Conservative government of Brian Mulroney (1984-93), and then himself the federal Tory leader, Mr Charest made his political career in Ottawa. After a referendum on Quebec's secession in 1995 was only narrowly defeated, he was press-ganged into provincial politics as Liberal leader. Outside Quebec, Mr Charest was seen as the best hope of Canadian unity. Inside it, he was soon regarded as the agent of Ottawa. Now the voters have accepted his claim to be both a good Canadian and a proud Quebecker.

He was helped in this respect by Mario Dumont, the leader of Action Démocratique du Québec (ADQ), a fledgling conservative party. Though the ADQ took only four seats, it won 18% of the vote, much of it apparently from the PQ. It sucked off enough of the PQ's supporters to allow the Liberals to win in many French-speaking districts outside greater Montreal. In the campaign debate, Mr Charest was able to paint Mr Dumont as more dependent on federalist business interests than he.

The prime minister, Jean Chrétien, another Quebecker, said he was heartened by the election. But there is no love lost between him and Mr Charest. Rather, Quebec's new premier is close to Paul Martin, Canada's former finance minister and the favourite to replace Mr Chrétien when he steps down in ten months.

That friendship may be tested. To prove his *Québécois* credentials, Mr Charest has promised to fight for a more decentralised federalism. Whoever is in power in Ottawa will find it harder to brush off those demands now that a friend of Canada is running Quebec. After all, as Mr Landry, who is likely to step down as PQ leader, pointed out in his concession speech, "next election the party of change will be the Parti Québécois."

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Colombia's conflicts

Safety of a sort

Apr 17th 2003 | CARTAGENA
From The Economist print edition

A growing tide of refugees floods the cities

CARTAGENA, a Caribbean resort of splendid colonial architecture, has long escaped the brunt of Colombia's violent conflicts. That has made it a place of refuge for people like Sandra Palmera. She arrived in the city eight months ago, after armed men had seized her husband from their farm in Necoclí, 260km (165 miles) away. Ms Palmera, who is 19, now lives in a shack made of plastic sheeting at Lion Island, a patch of earth next to a swamp. She has two small children, one of them born in the shack, but no water or electricity; the only aid she has received has been from neighbours and from the UN's World Food Programme, which provides food for a community kitchen at Lion Island.

Ms Palmera has become part of Colombia's huge, but often overlooked, refugee problem. According to official figures, more than 1m people have been “internally displaced” since 1995. The true figure may be over 2m, says Luis Alfonso Hoyos, who runs the Social Solidarity Network, the government agency responsible for helping the refugees. Many fail to register, out of fear, ignorance or scepticism that aid will reach them. CODHES, a non-governmental organisation, claims that 2.8m have been displaced since 1985.

All agree that Colombia's refugee problem is one of the world's largest, similar in scale to those of Angola, Congo and Sudan. It is still getting worse: according to CODHES, more than 412,000 were forced to flee their homes last year, compared with 342,000 in 2001.

Whole communities have been uprooted from rural areas, as Colombia's three illegal armed groups—the guerrillas of the FARC and the ELN, and right-wing paramilitary vigilantes—battle each other and the armed forces for territory. Sometimes the exodus is the result of fighting: last year residents of Bojayá, an impoverished, mainly black village in Chocó province, fled after more than 100 villagers had died in battles between the FARC and paramilitaries. Others flee threats and intimidatory selective killings. Around 40% of displaced people are the victims of the paramilitaries, and about a third are fleeing the guerrillas, according to Harvey Suárez of CODHES. Black and indigenous Colombians are disproportionately affected.

Cartagena has become a particular magnet for refugees. Its hinterland includes the Montes de Maria, a much-disputed area where President Álvaro Uribe has recently imposed extra security controls. According to official figures, Cartagena's population of 900,000 includes 26,000 internally displaced people; the true

figure may be more than 70,000.

In their makeshift new homes, the refugees face grim conditions and resentment from the local poor. In Cartagena, a once prosperous place, 70% of the inhabitants are now poor and 30% lack proper jobs, according to Armando de Avila, the city's social-development secretary. He says his department's budget can at best reach 10% of those who need help. The refugees sometimes face violence and score-settling. In Medellín and Bogotá, officials say that continued violence is forcing people to shift around the city.

Colombia's previous government began to take steps to help internally displaced people. Those who register get emergency help, including food, for three months, extendable for another three. But the Social Solidarity Network has been overwhelmed by the rise in displacements: the queue for aid numbers 60,000 families, though Mr Hoyos says he hopes to clear the backlog within a year. Many refugees fail to establish themselves in jobs and permanent homes. “We help people for three months and then they are back to square one,” says John Mahony, a Catholic priest in Cartagena.

Mr Uribe, who took office last August, hopes to cut the flow of refugees by setting up police stations in 170 towns which lacked them when he came to power. He also aims to return 30,000 families to their original lands and villages by 2006. All agree that this is desirable if done voluntarily; otherwise, aid-workers fear that meeting this goal risks endangering the homecomers. In the end, Colombia's refugee problem will be settled only when the country achieves greater security and thus faster economic growth. In the meantime, much more help is needed.

EPA

How many will be able to go home?

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Thailand

Thais love Thaksin

Apr 17th 2003 | BANGKOK
From The Economist print edition

EPA

Despite the misgivings of foreign and domestic commentators, Thailand's forceful prime minister seems to be unassailable

Get article background

IN DIFFERENT circumstances, the race to lead the Democrats, Thailand's main opposition party, would be a compelling spectacle. It pits Banyat Bantadtan, a craggy machine politician from the party's stronghold in southern Thailand, against Abhisit Vejjajiva, a dashing young reformer from Bangkok. The vote of party MPs and executives, on April 20th, could go either way. The same cannot be said, however, of the next general election, to be held within two years. Thais are shrugging off the leadership contest because they assume that Thai Rak Thai ("Thais Love Thais"), the party of Thaksin Shinawatra, the prime minister, would romp home against either challenger.

The most recent polls show support for the ruling party (54%) far ahead of that for the Democrats (14%). Were an election to be held tomorrow, Thai Rak Thai would probably increase its already unassailable majority in the House of Representatives. No previous Thai government has lasted the full four-year life of a parliament. Now Thais are asking not whether Mr Thaksin will complete his current term, but how many terms he will serve.

In part, Mr Thaksin's commanding position stems from Thailand's new constitution, which attempts to reduce political instability by making it harder to unseat a government. His enormous wealth helps too; he was Thailand's richest man until he handed his businesses over to his son. But Mr Thaksin also has a strong record to point to from his two years in office. During the campaign, he impressed the electorate with an unprecedented platform of specific policy pledges: to charge just 30 baht (70 cents) for treatment at public hospitals, to endow each village in the country with a microcredit fund of 1m baht, to give farmers a three-year moratorium on debt payments, and so on. Once in office, he amazed voters by keeping those promises, and then making new ones. His latest wheezes include capping the price of petrol and building 1m cheap houses.

What's more, this spending has helped revive Thailand's economy. It grew by 5.2% last year, its best performance since the crash of 1997. As usual, the boom has benefited urban areas more than rural ones. But many of Mr Thaksin's programmes are specifically aimed at the country, where most of

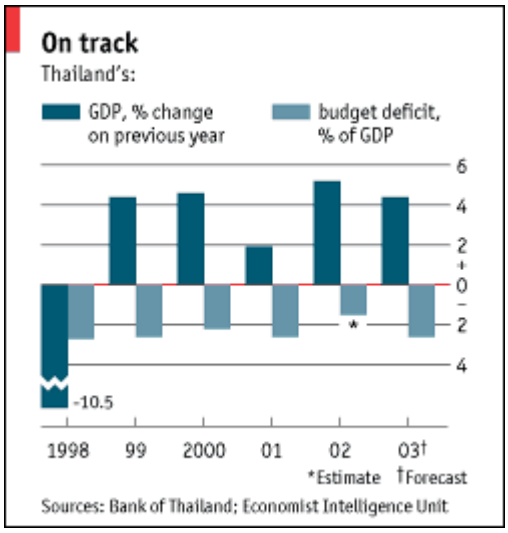
Thailand's voters live.

Above all, Thais seem besotted with Mr Thaksin's get-up-and-go image. They admire his success in business—though it came chiefly through political connections—and relish his CEO's emphasis on deadlines and results. They consider news about him more interesting than any other kind, according to the polls. Brushing aside the serious concerns of human-rights groups, most Thais wholeheartedly approve of his “war on drugs”—all the more so, perhaps, since he has not flinched at the killings of some 1,500 suspected dealers.

The Democrats have little to counter this mesmerising performance. Mr Banyat smacks of the dour, bureaucratic politicians hammered by Mr Thaksin at the last election. Mr Abhisit, at 38, is younger and more dynamic, but his most frequent criticism of the government—that Mr Thaksin is trying to accumulate unfettered authority and manipulate it for his own benefit—does not seem to worry many voters.

True, Mr Thaksin is constantly expanding his influence in unseemly ways. What with the channels run by the state and those owned by his family (he bought up the only private one, and sacked many of its journalists), he controls all Thailand's television stations. He has overseen the promotion of relations to senior positions in the army and police. Two former members of his staff now sit on the constitutional court. But sinister as all this appears, Mr Thaksin does not get everything his own way: the government recently abandoned a proposed law to muzzle the press, for example. It has also backed away from a measure that blatantly benefited his family's mobile-telephone business. Despite the government's stalling on telecoms reform, competition in that industry is increasing—and margins are falling.

Nor, despite dire predictions, have Mr Thaksin's spending programmes wrecked the government's finances. In fact, the economy has grown so strongly that public debt, although on the increase in absolute terms, fell last year as a proportion of national income. Imprudent lending from state-owned banks, half-baked debt restructurings and other hidden liabilities may reverse that trend. But the Democrats can hardly base an election campaign on such suspicions.



So what might cause Mr Thaksin to stumble before January 2005, the last possible election date? A serious economic downturn, abetted, perhaps, by a plunge in tourism due to the current SARS scare, would obviously take its toll. But with the war in Iraq drawing to a close, and oil prices falling, such fears are receding. A rift within the squabbling ranks of his party would also be damaging. But any defectors would be gambling with their careers, since the constitution would prohibit them from standing if a snap election followed. An almighty scandal could always emerge—but Mr Thaksin has already weathered the revelation that he filed a false declaration of his assets during a past stint as a minister. Suranand Vejjajiva, a party spokesman (and cousin of Mr Abhisit), puts it bluntly: “We're not worried.”

In the long run, the prime minister may alienate voters by pledging more than he can deliver. He has said he will eradicate drugs within a year, drought within four and poverty within six, to name just some of his goals. No one knows which, if any, of those deadlines the electorate will hold him to. But for the moment, the Thais seem to be loving Mr Thaksin.

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India

Missing sisters

Apr 17th 2003 | ROHTAK
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A shortage of girls will haunt India for decades

EPA

Will there be wives for them?

IN THE district of Rohtak, a fairly well-off town in northern India's farm belt, it is estimated that one in every six girls conceived is aborted. Modern ultrasound technology, coupled with a traditional preference for boys, has led to mass female foeticide. Progress does not help: rising prosperity, public-education campaigns and strict-looking laws have all failed to curb the practice. But the resulting dearth of females is already wreaking social damage, which can only worsen.

Demographers have long puzzled over India's skewed sex ratio. Throughout the 20th century, it grew ever more unbalanced, from 972 women for every 1,000 men in 1901, to 927 in 1991. Encouragingly, it then climbed to 933 in 2001. This, however, masked a sharp imbalance among children under the age of seven: from 945 girls per 1,000 boys in 1991, to 927 in 2001. Data on the sex ratio at birth are scanty, because many births are not registered. Figures must be gleaned from the ten-yearly censuses, and from local surveys.

These show wide regional disparities. In the south, especially in the state of Kerala, there are many more girls. But in 48 of India's 577 districts, the sex ratio among children is below 850. Of these, 34 are, like Rohtak, in Haryana or its neighbouring state, Punjab. In Rohtak there are 847 females for every 1,000 males, and just 796 girls for every 1,000 boys.

A strong preference for boys is common in agricultural societies. Boys inherit the family name and land, and provide an old-age insurance policy. Girls join their husbands' families, and need dowries. When mobile ultrasound units started touring rural Haryana in the late 1980s, their advertising pitch was, appallingly, “Pay 500 rupees now and save 50,000 later.”

Pramod Gouri, director of Search, a government-financed civic-education outfit in Rohtak, offers two explanations as to why Punjab and Haryana should be so egregiously prone to female foeticide: the region's social norms have proved remarkably immune to “modernity”; and the agricultural “green revolution” put enough money in local pockets to make sex-selection affordable. Abortion is far more prevalent among better-off, town-dwelling, higher-caste and literate women. Smaller families have, as in China, also further encouraged female abortion.

In 1994, sex tests were made illegal. But in Haryana only three cases have been filed: the law is hard to enforce, since ultrasound scans are now widespread. For doctors, there is good money—3,000-5,000 rupees ($60-100) a time—to be made from (illegal) abortions.

Already, the female shortage is making itself felt. Urmila, a district councillor in the countryside near Rohtak, says unmarried young men are turning to crime, and violence against women has increased. Some men in Haryana are buying “brides” (for between 10,000 and 20,000 rupees) from other parts of India, or Bangladesh. There are an estimated 15,000 such women. Many, though, are treated as slaves. Even their children are shunned.

Despite the shortage of brides, Urmila says that dowries have risen, not fallen. In Rohtak, a middle-class family will typically spend 600,000-800,000 rupees—several years' earnings. Touring her district, she finds people anxiously asking her if she knows of any marriageable girls. This, she hopes, may be the

first sign of a change in attitudes. But it may be too late to avoid serious social trauma.

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About sponsorship

China's coal reserves

Tonnes of problems

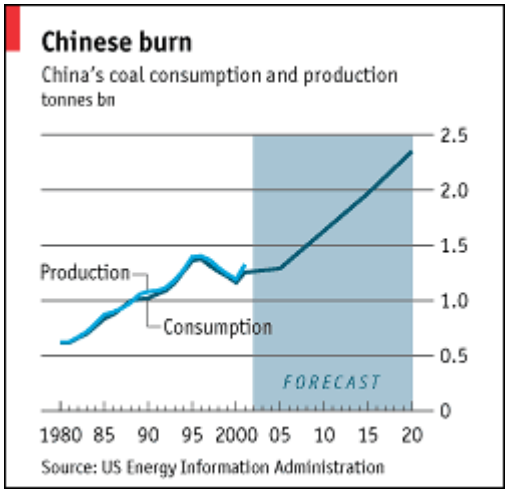
Apr 17th 2003 | BEIJING
From The Economist print edition

Blackened faces turn pale

Get article background

IT MAY seem odd, but China could soon be running out of coal. The once boundless reserves of the dirty stuff, providing around 70% of the country's energy needs, are rapidly coming to an end, according to Chinese officials and some outside analysts. At the annual session of China's parliament last month, Lang Qingtian, a representative of the coal industry, said the looming coal shortage was “one of the greatest hidden dangers in China's future”. The problem will become apparent as early as next year, Mr Lang predicted, with a shortage of 200m tonnes of coal, and continued shortages will threaten future economic growth.

Couched as Mr Lang's report was with a plea for more state investment in his industry, such handwringing is discounted by some as a bit of lobbying. But his message echoed a warning issued last year by Li Rongrong, a minister in the State Economic and Trade Commission, who said the vast bulk of the country's coal reserves would be depleted in the near-to-medium future. Of China's 390 mining townships, he said 68% were already in their “autumn period” and another 12% were “ailing”. Only the remaining 20% retained long-term production potential. Across the north-east, huge mines are already due for closure because of declining output. Asia's largest strip coalmine, at Xilutian in Liaoning province, is due to close in 2007. Fuxin, in the same province, is already struggling to find work for its 400,000 hard-hats who have run out of coal to dig.



Joe Zhang, an analyst with UBS Warburg in Hong Kong, believes that growth in demand will consistently exceed supply. China's considerable coal exports can be expected to fall, and it could become a net importer of coal as soon as 2005. China, according to Mr Zhang, “faces a long-term risk of coal and power shortages”. The coal shortages and power rationing reported in four provinces may, he thinks, soon be replicated elsewhere.

According to Jerry Tien, a coal specialist at the University of Missouri-Rolla, China's growing shortages are due not only to depletion, but also to restructuring in which many thousands of dangerous and inefficient small mines have been closed on economic or safety grounds in recent years. But, he says, China may indeed face long-term shortages because it has lagged behind in exploration, and mine bosses are desperate for the cash they need to develop new sources.

The government has so far been slow to provide the money. With its debt inexorably rising as the demands on its resources mount, it has little choice. But, already fretting over the potential security risks of China's rising appetite for imported oil, its leaders may soon see the wisdom of investing more in domestic coal. James Brock, of Haarmann Hemmelrath, a management consultancy, reckons the necessary capital investment in the industry would still cost China less than importing more of its energy. Rising demand, rising production costs and the added costs of washing coal to comply with newer environmental standards will all push prices up, he predicts, and “people may indeed feel there is a shortage of coal at the prices they want to pay. But a physical shortage? I doubt it very much.”

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Japan

Small victories, big lessons

Apr 17th 2003 | TOKYO
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Leaders who make themselves accountable are winning over local voters

THEIR national politics may be gridlocked, but Japanese voters can still find other outlets for their frustration. On April 13th, they turned out to choose governors in ten prefectures, and filled local assembly seats in several areas. After watching a few maverick governors shake up bits of Japan over the past few years, voters in other prefectures have decided to try it in their own backyards.

The best example of this trend is 45-year-old Shigefumi Matsuzawa, who beat six other candidates this week to become the new governor of Kanagawa prefecture. Mr Matsuzawa had been a national legislator for the Democrats, Japan's biggest opposition party, but grew fed up with its futile attempts to gain power from the Liberal Democratic Party. Like many other candidates for governor, Mr Matsuzawa fought this election as an independent. Without help from the national parties, he took Kanagawa by tying himself to Japan's three best-known independent governors.

One of them, Shintaro Ishihara, has been throwing stones at the national government since he became Tokyo's governor four years ago. He won a second term this week. Mr Ishihara proposed a local tax on banks last year, which was shot down by the courts but showed up the central bureaucrats who continue to coddle Japanese lenders. He has also made foreign policy awkward by calling for American military bases in his jurisdiction to be moved. Mr Matsuzawa was so impressed with such tactics that he ventured out of nearby Kanagawa to join Mr Ishihara on the Tokyo campaign trail.

Mr Matsuzawa also praised the efforts of Yasuo Tanaka, the governor of Nagano, and Masayasu Kitagawa, the outgoing governor of Mie. Mr Tanaka turned heads across Japan last year by keeping his pledge to halt dam construction in his prefecture. Nagano's local assemblymen, who were determined to keep the public-works money flowing, punished the governor last summer with a successful vote of no confidence, but Mr Tanaka took his case to Nagano's voters and won his post back in September. In the recent Kanagawa campaign, Mr Matsuzawa promised voters that he, like Mr Tanaka, would stick to specific pledges no matter the cost. He borrowed an idea from the third governor, Mr Kitagawa, to stress his point.

Just as Mr Kitagawa had done in Mie, Mr Matsuzawa published a manifesto promising specific outcomes for his prefecture, with precise targets to back them up. These included pledges to increase the number of day-care centres and nursing homes by at least half, to devote 20% more space to parks, and to cut the local bureaucracy by 1,500 people while adding an equal number of police. Such pledges are normal in other democracies, but in Japan, where bureaucrats pull the strings, governors have usually settled for empty platitudes over measurable commitments.

Mr Kitagawa broke that mould in Mie, by taking personal responsibility for meeting his targets and by taking on the central government to do so. He killed off plans for a nuclear reactor, but is especially proud of his successful bid to lift the height limit on car carriers from 3.8 metres to 4.1 metres, to which the central bureaucrats assented after Mr Kitagawa challenged them to a debate. Raising the number of cars on each carrier from three to four may seem a tiny triumph. But to Mr Kitagawa and his supporters, it meant a 33% increase in productivity and an immeasurable victory over their national nemesis.

Besides Mr Matsuzawa, two dozen other candidates followed Mr Kitagawa's advice by publishing similar manifestos during their campaigns. Many of these involved promises to cut public works and use the money for other projects, which invariably requires a fierce battle with the central government. Those bureaucrats, it seems, will either have to start honing their debating skills, or get ready to give way more often.

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North Korea's nuclear weapons

Switchback

Apr 17th 2003
From The Economist print edition

North Korea signals a change of heart

Get article background

COULD the war in Iraq already be yielding fruit in North Korea? That is the optimistic interpretation of the latest anonymous comments from the country's foreign ministry. A statement on April 12th declared that North Korea would “not stick to any particular dialogue format” for discussions, so long as America made a “bold switch in its Korean policy for the settlement of the nuclear issue”. But what did it mean?

The bit about the format is simple, and welcome enough. For months now, all efforts to get America and North Korea talking have been stymied by the North's insistence that any talks should be one-to-one, whereas America has insisted that they should involve the other main interested parties. North Korea, presumably, wants respect. The American thinking is that Russia, China, Japan and South Korea would all have to be involved if a deal were to have any chance of sticking. In particular, they want to be sure that the Chinese, now the North's only significant supporter, back, rather than undermine, whatever is agreed.

Now it looks as though North Korea is prepared to give ground on this point, news that was swiftly welcomed by George Bush and the South Koreans. Reports say that talks could begin in Beijing as early as next week, initially involving just America, North Korea and China: other countries may be added later. If North Korea has really accepted this, it marks an important first step towards ending a nasty nuclear-tipped crisis.

What, though, might the “bold switch” involve? This is the tricky part. It would be naive indeed of the North Koreans to imagine that the victorious Americans are in a mood to make substantial concessions. Their objectives remain as they were: a properly intrusive inspection regime, which could have detected North Korea's illicit uranium enrichment in good time; an end to missile exports and testing; tension-reducing action in the conventional-weapons arena. There is unlikely to be much of a switch from any of that. Saddam Hussein, after all, has just been toppled for supposedly possessing far less gruesome weaponry than North Korea has. But, if the North Koreans are ready to start talking seriously, diplomatic finesses will no doubt be available to mask their capitulation.

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South Korea's press

A question of distortion

Apr 17th 2003 | SEOUL
From The Economist print edition

The new government is clashing with some of the country's newspapers

EPA

In the media spotlight

THE start of Roh Moo-hyun's presidency has been clouded by complaints from South Korea's newspapers that the government is trying to restrict their freedom. Press rooms at government departments are being replaced by “briefing” rooms. Reporters can see officials only by appointment. In the past reporters from top newspapers were able to meet officials freely, although often on the basis that their comments would not be attributed.

The government says the changes are intended to contain the “unfair” ways newspapers “distort” official decision-making. On April 7th, known as Newspaper Day, President Roh actually called for greater press freedom. But the country's top-selling three dailies, *Chosun Ilbo*, *Donga Ilbo* and *Joongang Ilbo*, say the government is clamping down on the press. The Korea News Editors' Association says the policy restricts people's right to information. It notes that South Korea does not have a freedom-of-information act, under which anyone can seek access to officially-held documents.

The government and the press clashed head-on in March when Mr Roh appointed Seo Dong-ku to be president of the state-run Korean Broadcasting System. Newspapers questioned Mr Seo's impartiality for this sensitive job. He was Mr Roh's media adviser during last year's election campaign. Mr Seo offered his resignation on April 2nd and, after some deliberation, Mr Roh accepted it. Also under attack is Lee Chang-dong, a former film director now running the culture and tourism ministry. An enthusiast for the new policy, he calls for a “healthily strained” relationship between government and the press.

Mr Roh's reputation as a liberal is now being questioned. His critics point out that his hostility towards the press goes back to 1991, when he sued *Chosun Ilbo*'s weekly edition for reporting that he owned an expensive yacht during his bid to win election to the National Assembly (he was defeated). Other observers say the clash reflects the growing pains of the country's expanding media. The big newspapers do have some questionable ways. For decades, the first editions of morning papers have been on sale the previous evening around seven. Early editions of newspapers are available in other countries, but in South Korea the government and big corporate advertisers often to try to get editors to change stories in later editions.

Not all papers oppose the changes. Under the new system, reporters from smaller ones and internet publications, previously excluded from press rooms, will be able to attend briefings, including those at the presidential Blue House. A survey last month found that showed that 59% of journalists approved of the changes.

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Nigerian elections

Put-putting to democracy

Apr 17th 2003 | WARRI
From The Economist print edition

Reuters

A parliamentary poll complete, a presidential election to come, and no coup likely

“THE election went quite well, considering the situation,” says Christian Igbuku, an electoral official. Nigeria's parliamentary poll on April 12th was delayed for a day in Warri, the smoggy, garbage-choked oil town where Mr Igbuku lives. Then, when it took place, nearly four-fifths of the voters in his ward were too frightened to vote. Youths waving submachineguns from their Mercedes drew up outside one polling station and demanded the ballot papers, boxes and result sheets. “Of course, they got them,” says Mr Igbuku, “We're not stupid.”

None of this, however, was worse than expected. Warri and its surrounding creeks and swamps are fractious even by Nigerian standards. Ethnic violence is common, especially at elections. Politicians are expected to give jobs to, and spend public money on, members of their own tribe. The Ijaws, the largest tribe around Warri, complain that unfair electoral boundaries prevent them from winning control of local government. Ijaw youths threatened to disrupt the election unless the boundaries were redrawn. They kept their word.

Last month, using speedboats with mounted machineguns, a group of Ijaws attacked villages inhabited by the Itsekiri tribe, the relatively well-educated minority who dominate local politics. Itsekiri leaders say that at least 100 people died, although this cannot be confirmed.

The central government has tried, with some success, to restore order. The army was sent in, and Warri is now under curfew. The streets are punctuated by breeze-block roadblocks, cars are searched for arms, and anyone who speaks disrespectfully to a soldier is made to hop along the street in a squatting posture, like a frog.

But the violence is hard to stamp out. Politics in Nigeria is a scramble for a share of the stuff they pump in Warri: the oil that provides more than 95% of exports and almost all government revenue. Political office tends to enrich the office-holder and, on a smaller scale, his tribe, so many candidates are prepared to fight for it, and many of their young, jobless male cousins are happy to pull triggers for them.

There is also a worrying overlap between politics and organised crime. One reason the Ijaw militants are so well-armed, according to the Itsekiris, is that they make fat profits from “bunkering”. This entails

puncturing oil pipes, siphoning off the oil and selling it to Russian smugglers. Several youth leaders sport gold watches and satellite telephones.

In Nigeria as a whole, as in Warri, the election could have been worse. The country's latest experiment with democracy is only four years old, so you would expect hiccups, at the least. Ten people were reported killed in a village in Bayelsa, one of the country's 36 states. Elsewhere several vehicles carrying electoral materials were hijacked. And an assassin's bullet aimed at a candidate for governor in Enugu state “missed him by the whiskers”, according to the *Sunday Champion*, a local paper.

Shambolic organisation allowed vote-riggers to do their work undetected. Some cheats held palm kernels over their thumbs to disguise the print, enabling them to register often. Overall, the voting was popular, peaceful and probably more or less reflected the will of the people.

Early results suggested a strong majority for the ruling People's Democratic Party. But Muhammadu Buhari, the main opposition leader, cried foul and called for a fresh election. He gave no sign, however, of withdrawing his name from the presidential election that is due on April 19th.

Will last weekend's vote produce a better parliament? It would be hard to do worse than the last one. Its members refused to pass a bill outlawing political violence, and some reportedly requested bribes to support an anti-corruption bill. Given that most incumbents look set to keep their jobs, there seems to be only a slight chance of cleaner or more benevolent law-making.

On the plus side, the army will probably accept the result of both elections. If so, it would be one of the extremely rare times in the 43 years since independence that a civilian government has held an election unaccompanied by a coup. Sadly, one reason for the quiet in the barracks is that the military elite, having looted the country for so long, are much richer than other Nigerians, and have been generous in their support of candidates they like. In a field of 20, both leading contenders, and two others, are retired generals.

General v general

The front-runner is the incumbent, Olusegun Obasanjo, a former military ruler who has reinvented himself as a popularly elected civilian president. Chasing him is Mr Buhari, another former military ruler who would very much like to do the same. The third serious candidate is Emeka Ojukwu, who led the attempt by south-eastern Nigeria to secede in 1967-70, sparking a war that cost 1m lives.He is supported by the Ibos, one of Nigeria's three largest tribes, but that will surely not be enough to allow him to win.

Mr Obasanjo first became head of state in 1976, when the military ruler, Murtala Muhammad, was murdered. As his deputy, Mr Obasanjo was automatically elevated. He promised to hold elections and step aside. To some surprise, he did. He was roused from chicken-farming retirement to contest an election in 1999, after the death the previous year of Sani Abacha, arguably Nigeria's nastiest ruler.

In his four years as a civilian president, Mr Obasanjo has allowed unprecedented freedom of speech and association. But perhaps because he is less brutal than his predecessor, ethnic violence has grown worse, claiming more than 10,000 lives. He has liberalised the economy a bit, leading most noticeably to an explosion in the number of mobile telephones.

But Nigeria is not noticeably richer, and two-thirds of its people still live on less than $1 a day. Many southerners will vote for him because he is a southerner and a Christian. Others will support him because they think he is at least trying to fix the country's enormous problems.

Mr Buhari, who seized power in a coup at the very end of 1983 and was ousted in another in mid-1985, has the reputation of having been a serious, hard-working, ascetic dictator, unlike some of those who came before and after him. A northern Muslim, he is popular in the mainly-Muslim north, partly because of his support for Islamic criminal law, which 12 northern states have adopted since 1999, possibly unconstitutionally. He is unpopular in the mainly Christian and animist south, partly for the same reason.

Mr Obasanjo's tolerance of criticism has been gloriously evident during the campaign. Thirteen state governors are under investigation for corruption, and newspapers describe their alleged misdeeds in salacious detail.

Mr Buhari, who used to jail his own critics, has not let that irony check his tongue. According to Transparency International, an anti-corruption group based in Berlin, Nigeria is the world's second most corrupt country. Vote for Obasanjo, goes one of Mr Buhari's slogans, and “help make Nigeria No 1”. The Buhari campaign has also offered 100,000 naira ($765) to anyone who can name a promise Mr Obasanjo has kept.

Mr Obasanjo's response has been equally sharp. To remind voters of Mr Buhari's disastrous attempt to impose command economics on Nigeria, one campaign cartoon shows a long queue outside an empty shop marked “essential commodities”, with a soldier whipping one of the people waiting in line. His campaign also offers a cash reward to anyone who can find an instance of Mr Buhari speaking in favour of democracy before he decided to run for the presidency.

Meanwhile, in Warri, a row of shipping crates which Itsekiri traders had turned into makeshift shops stands charred and abandoned, having been torched by the Ijaws in their raids. Locals are philosophical. “Democracy is good,” says Godwin Eweye, a video-store owner, “but Nigeria is not yet fully democratic.”

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South Africa and AIDS

Get on with it

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From The Economist print edition

South African activists want their government's dithering to stop

DOZENS of protesters block the entrance to a Cape Town hotel, peering into passing limousines, hoping to find Manto Tshabalala-Msimang, the minister of health. Their posters proclaim that the minister is wanted for murder. This is because of the government's failure to provide anti-retroviral drugs to the millions of HIV-positive South Africans who cannot afford to buy them. Dr Tshabalala-Msimang manages to sneak into the hotel through a back door. But the protesters have successfully made their point.

This incident, earlier this month, was the start of a nationwide civil-disobedience campaign, led by a well-organised group of AIDS activists known as the Treatment Action Campaign. The leader of the group, Zackie Achmat, has impressive credentials. He is HIV-positive, but refuses to take anti-retrovirals on principle, until they are available free through the national health system. Nor is he any stranger to struggle. Locked up seven times by the old white regime for fighting apartheid, he says he is now prepared to go back to prison if it will help AIDS sufferers. “It's very painful to be taking this action against our ANC government,” he says, “it's like fighting against your own parents.”

The ANC, of course, knows all about civil disobedience. It started using it in the 1950s, and the marches, the strikes, the rent boycotts and the burning of passes are now part of its folklore. Today it finds itself under increasing pressure to change its policies on AIDS.

Mr Achmat and his fellow campaigners reserve most of their fury for Dr Tshabalala-Msimang, whom they hold to be incompetent. But the minister takes her cue from the president, Thabo Mbeki, who has conspicuously failed to provide leadership in the face of the AIDS pandemic. South Africa has a bigger HIV-positive population than any other country, but Mr Mbeki does not like to talk about the disease, and doubts whether anti-retroviral drugs are safe or effective.

It is left to beleaguered officials at the Ministry of Health to explain the government's position. They argue that just giving out pills to poor, uneducated people is not the solution; if patients do not follow the correct treatment regimen, the drugs quickly become ineffective. The government also likes to point to the large sums of money it now spends on AIDS education and prevention in schools and elsewhere.

Fair enough, says Mr Achmat, but treatment is still essential. Not just because it keeps people alive, but also because it helps to remove the stigma and denial that surround the disease in southern Africa, not least by encouraging people to come forward for HIV tests.

A growing number of companies appear to agree with him. Anglo American estimates that one quarter of its workforce is HIV-positive. It now offers free anti-retrovirals to those with AIDS-related diseases. This is an expensive commitment, but it keeps productive workers alive. Brian Brink, director of Anglo American's AIDS policy, describes the initial responses to this offer as encouraging, with patients now willing to talk about AIDS, instead of hiding it away. “It's a complete transformation in attitude,” he claims.

The government says that the ministries of health and finance are now assessing the feasibility of a comprehensive drug-treatment plan, and a decision is expected soon. But Mr Achmat and his fellow campaigners say that, with some 600 South Africans dying from AIDS-related diseases each day, any delays must be measured in human lives.

Last week a distinguished visitor agreed. Richard Feachem, head of the UN's Global Fund to Fight AIDS, Tuberculosis and Malaria, pointed out that poorer countries in Africa, such as Malawi and Uganda, are already offering anti-retrovirals through their public health services. “It is not easy,” says Professor

Feachem, “and it will be expensive, but one has to start, and the best time to start is now.”

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Israel and the Palestinians

A moderate spin

Apr 17th 2003 | JERUSALEM AND RAMALLAH
From The Economist print edition

Ariel Sharon's latest words were long on charm, short on substance

Get article background

Reuters

Sharon's silver tongue

THE American-British victory in Iraq, says Israel's Ariel Sharon, creates a "new period of opportunity for Middle-East peacemaking which we mustn't let slip by." Mr Sharon told the newspaper *Haaretz* this week that he, for one, would be pursuing that opportunity seriously, and that, for lasting peace, he was ready for painful concessions. Some settlements would have to go, to make way for the Palestinian state which, "realistically speaking", would eventually come into being. "We should not rule over another people nor run their lives," added Mr Sharon. His point seemed brutally driven home two days later when three Israelis, two of them civilians, and three Palestinians were killed in the West Bank and Gaza.

Two of the ultra-rightist partners in his coalition threatened to bolt if any of Mr Sharon's concessions actually happened. They needn't start clearing their desks. In practice, the prime minister greeted the new period of opportunity by sending his top aide to Washington this week to argue with the administration over a still-to-be-published road map designed to resume the peace process.

One of Mr Sharon's conditions for resuming the process is that the Palestinians "make it clear right at the start" that they forgo the right of return of the 1948 refugees. He wants a complete ceasefire and the militias disarmed, plus a lengthy period of quiet, before Israel has to pull back its troops from Palestinian towns. As for Israel's removing a slew of illegal new settlements, and freezing the expansion of the older ones, Mr Sharon says this is "a delicate issue that should come up in the final phase of the negotiations. We should not have to deal with it now."

A draft of the road map approved in December by the Quartet (America, the EU, Russia and the UN) proposed that Israel "immediately" dismantle settlement outposts erected since March 2001, and also "freeze all settlement activity (including natural growth of settlements)" in the first phase of the three-phase process. But Mr Sharon's position is that the road map must be implemented sequentially, not in parallel. In other words, the Palestinians are to move first, and Israel only once it is satisfied with the Palestinians' performance. This, Israel's left-of-centre opposition says, will mean no movement at all: beyond the moderate spin, the substance remains as unyielding as ever.

The question is what the Americans will make of it. On the Israeli right, the hope is that the Bushites will back away from a fight with Israel's political supporters in Washington. But administration officials indicated this week they would resist Mr Sharon's interpretation and insist on parallel performance of the map—which they suggest should begin once it is formally published.

The map, George Bush has decreed, will be published when Mahmoud Abbas, the new Palestinian prime minister, forms his government. On April 13th Mr Abbas submitted a list of ministers to the leaders of Fatah, the ruling faction within the Palestinian Authority. He sought to please everybody. But, rather like his boss, Yasser Arafat, he ended by pleasing nobody save his staunchest supporters.

Young reformers within Fatah moaned that the new order kept too many old "corrupt" faces in government, including such top negotiators as Nabil Shath, Saeb Erekat and Yasser Abed Rabbo. Others said the cabinet was short on independent figures committed to the rule of law. Women pointed out that there were no women.

The fiercest quarrel was over the interior minister, who will have the job of drumming order into the PA's demoralised security forces. Mr Abbas wanted Muhammad Dahlan, the former security chief in Gaza. Mr Dahlan is also the preferred candidate of America, Egypt, Jordan and the EU, all of whom are supposed to help reform the PA's security forces. But many Fatah members, suspicious of precisely these affiliations, wanted the incumbent, Hani al-Hasan, a veteran Fatah leader loyal to Mr Arafat, to stay on.

Mr Abbas then proposed that he himself would be interior minister and Mr Dahlan would be “state minister for interior affairs”. Fatah rejected the compromise. So did Mr Arafat, who then began intensive talks with Mr Abbas.

The two old hands will probably soon find a way round a dispute that is more about turf than policy. Both men agree that the road map is the only plan in town, that the “armed *intifada*” has to be ended, and the PA has to be rebuilt. The much graver misgivings are whether the map will get anybody anywhere. The Palestinian leaders have accepted it “as it is”, meaning that Israel and the PA follow its directions simultaneously. Mr Sharon, for all his purring words, has not.

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About sponsorship

France's diplomacy

Cocorico? Or the chickens come home to roost?

Apr 17th 2003 | PARIS
From The Economist print edition

EPA

After a meeting in Russia of Europe's three leading opponents of the war in Iraq, France's president has most to lose

Get article background

THE headlines have been disquieting: “Washington intends to make France pay”; “Chirac, king of peace without a crown”. Indeed. Now that America has toppled Saddam Hussein, President Jacques Chirac's anti-war stand seems not just irrelevant but, increasingly, also damaging. After all, America's deputy defence secretary, Paul Wolfowitz, told American senators last week that France “is going to pay some consequences”—a threat, in the present economic gloom, that French business takes seriously.

So what is Mr Chirac to do? One answer is to repeat that the Franco-American disagreement has always been more about the means than the end. After Baghdad fell to America's troops, Mr Chirac issued a statement “rejoicing, as in all democracies, at the collapse of Saddam Hussein's dictatorship.” A second answer is to consolidate what has become known as “the peace camp”, hence the two-day summit last week in St Petersburg with Russia's President Vladimir Putin and Germany's Chancellor Gerhard Schröder. And a third answer is to step up the diplomatic pace, hence the three-day sprint at the end of last week by France's foreign minister, Dominique de Villepin, through Egypt, Syria, Lebanon and Saudi Arabia.

And what will all this add up to? President Bush is said to take political slights personally, which may be why he and Mr Chirac had not spoken to each other for two months until the French president rang up on April 15th. Given the climate in Washington (the sensationalists of Fox News are not alone in describing Mr Chirac as a “weasel”), it may be some time before America forgives France for its threat to wield its UN veto against war “whatever the circumstances”. Mr Wolfowitz suggests that France and the other peaceniks, if they want to repent, should write off the debts owed them by Iraq; France's may be as much as $8 billion. “I hope, for example, they'll think about the very large debts that come from money that was lent to the dictator to buy weapons and to build palaces and to build instruments of repression.”

The pessimists, in French terms, are similarly worried on the diplomatic front. The peace camp looks more like an alliance of convenience than of conviction. Mr Schröder's opposition to war in Iraq helped him win re-election last September. Similarly, Vladimir Putin's hostility to the war is surely dictated, in

part at least, by pragmatism: not only is Russia, with a large Muslim minority, bordered by unstable Muslim countries, but Mr Putin's generals are keen that post-cold-war Russia does not become too subservient to its new American ally. Strip away the rhetoric and it is plain that, though the St Petersburg trio (the summit was originally planned as a Russo-German one) can agree easily enough on the need to involve the United Nations in the administration of Iraq, they do not see eye to eye over redressing the transatlantic balance.

Mr Schröder's government, for example, is noticeably trying to get back into America's good books. Meanwhile, whatever the disagreement over Iraq, Mr Putin continues to see friendship with America as being more important to Russia in the long run than friendship with France.

Arguably, the same can be said even of the Arab governments that have just welcomed Mr de Villepin. France has been promoting the Arab-Israeli peace process, arguing that the “road map” agreed on by the European Union, the United Nations, America and Russia should be published quickly, and followed up by an international conference in Paris. But for all the eloquence of the foreign minister's pleas in Cairo, the Arab regimes know that it is America that calls the shots, both metaphorically and—witness Iraq—literally.

So is France's policy simply a waste of time and misjudged effort? Mr Chirac's critics say that he has alienated America, damaged relations with Britain and imperilled the future of the UN Security Council, NATO and the European Union. Moreover, by insulting the pro-war countries of central Europe, he has given credence to the notion advanced by Donald Rumsfeld, America's provocative defence secretary, of “old Europe” and “new Europe”. Worse still, says one embittered member of Mr Chirac's own party, he has done so not for France but for his personal popularity.

That may be too harsh. Mr Chirac's distaste for war with Iraq may have been genuine; his desire to involve the UN is shared by most of the world's leaders; and so, too, his conviction that a solution to the Palestinian-Israeli conflict is an urgent necessity to forestall more regional instability and more anti-western terrorism. Indeed, on many matters, from the plight of the Palestinians to a putative “regime change” in Syria, the apparently pro-American British are still in tune with the supposedly anti-American French, as was clear from last week's trip to Paris by Mr de Villepin's British counterpart, Jack Straw.

Alas, sincerity and realism are not always the same thing. Mr Chirac's problem is that because France wilfully alienated an America that was always certain to have a military victory in Iraq, France will find it harder to play a role in building peace. That, of course, assumes that a peace will be found and will be lasting. If not, the world will be worse off—and Mr Chirac will have been belatedly justified.

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Belgium's genocide law

Too embarrassing

Apr 17th 2003 | BRUSSELS
From The Economist print edition

Why Belgium is changing its law against genocide

A SMALL country with aspirations to be a moral superpower, Belgium ten years ago enacted a law on genocide and crimes against humanity that was meant to put it in the glorious vanguard of the fight for human rights. Now, after American protests, the law is being changed.

Earlier this year some Iraqis lodged accusations in a Belgian court against George Bush senior, Colin Powell and General Norman Schwarzkopf, blaming them for the deaths of Baghdad schoolchildren in the first Gulf war. Belgium's genocide law, one of the most far-reaching of its kind, lets non-Belgians lodge complaints even against non-Belgians and even for alleged crimes committed outside Belgium.

In the past the law has been used to prosecute those who committed crimes in Rwanda, once a Belgian colony. (Four Rwandans were convicted and imprisoned in 2001.) But it also offered an open invitation for politically-motivated people to bring cases against anyone they disliked. The roll-call of targets includes Israel's Ariel Sharon, Palestine's Yasser Arafat, Cuba's Fidel Castro and Iran's Ali Akbar Hashemi Rafsanjani.

The case against Mr Sharon was taken up by activists in the city of Antwerp who, coincidentally or not, have been raising tension there between Jews and Muslims. It was quashed earlier this year because Mr Sharon enjoys immunity, under the Belgian law, as the incumbent prime minister of a foreign country. Most of the other complaints are yet to reach court but they still embarrass Belgium, since it plays host to such international organisations as the European Union and NATO. Mr Powell, America's secretary of state, said NATO might have to move its headquarters unless Belgium changed its ways.

So change Belgium will. Its parliament, in a last act before next month's general election, has approved a revision of the genocide law. Complainants will have to show a direct link between themselves and the crimes alleged. The federal prosecutor has been given more reasons to throw cases out. Where the crimes happened outside Belgium and the accused are not Belgian, the government can now refer cases to the newly-created International Criminal Court in the Netherlands or to the courts of a country that accepts the ICC's jurisdiction. And, to the dismay of Socialist and Green politicians, under the terms of what has become known as “the Bush clause”, the law will even let the government refer a case to the court of a country that has not put its name to the ICC, such as the United States, provided it has a fair judicial and democratic system.

So Belgian idealism has been circumscribed. And doubtless the Bush family, *père et fils*, will breathe more easily.

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Germany's reforms

A mutinous rumble in the ranks

Apr 17th 2003 | BERLIN
From The Economist print edition

Germany's chancellor is finding it hard to win his party's support

Get article background

AP

He's still got some puff

FIRST it simmered. Then it bubbled. Eventually, this week, the dissatisfaction with Chancellor Gerhard Schröder's plans for economic reform overflowed, claiming its first prominent victim and catching the chancellor himself unawares. The upshot is that trade unionists and left-wingers in Mr Schröder's Social Democratic Party who had promised to block his plan for welfare cuts and a looser labour market have managed to make the party's leaders submit the chancellor's entire bundle of reforms, known as Agenda 2010, to a special party conference on June 1st.

The party's general secretary, Olaf Scholz, has tried to put a good face on things. “The 2010 reform agenda will be a success only if it's broadly supported in the party,” he says. True enough. Mr Schröder's own first instinct had been to get it approved in just this way. But he had been assured, by Mr Scholz among others, that the tactic would be unnecessary—and dangerous. A defeat at the special conference would leave the chancellor without the authority to see through the legislative centrepiece of his second term. It could even wreck his chancellorship.

What brought about this week's change of mind was stark evidence from the northern state of Schleswig-Holstein that mutinous feelings among party members were being stirred, not quelled, by the refusal to let them have their say. At a local party conference, the Schleswig-Holstein chairman, Franz Thönnes, a close Schröder ally, who backs Agenda 2010 and has opposed the idea of a special conference, was voted out of office by local delegates, who replaced him with Claus Möller, a critic of the reforms. Schleswig-Holstein is the third state where the Social Democrats have voted for a public debate about them.“All hell has broken loose among the rank-and-file,” declares one MP.

The misgivings are not surprising. Germans have grown used to a high degree of social security and many resent a plan that threatens it. But Germany's economy is not improving. Last year it grew by just 0.2%, the slowest rate in the euro zone. The chancellor's strength lies in the lack of any realistic alternative remedy.

His opponents want huge public investment to revive growth. But it would be difficult to square that with Germany's commitment to keep within the limit on budget deficits imposed by membership of the euro club—especially since the opposition-controlled upper house last month threw out a bunch of tax increases.

Mr Scholz predicts a “clear majority” for Agenda 2010 when the Social Democrats vote on it in June. Perhaps. What this week's events show is not that Mr Schröder's policies are necessarily doomed but that he still faces a big test of political skill to make his followers swallow them.

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Austria's government

Taking a risk

Apr 17th 2003 | VIENNA
From The Economist print edition

A daring pensions plan will test the skills of Austria's leader

Reuters

Can Schüssel face down Haupt?

WOLFGANG SCHÜSSEL, Austria's chancellor, has strong nerves. He did not blink when the other 14 countries in the European Union imposed a diplomatic freeze on Austria three years ago to punish him for his temerity in forming a coalition with Jörg Haider's far-right Freedom Party. Nor did Mr Schüssel seem unduly bothered when Mr Haider brought down the same government last year. Nor did he flinch from the brickbats earlier this year when he decided to team up, once again, with the Freedomites—though Mr Haider, tucked away as governor of the southern province of Carinthia, is now less in the national limelight. So it is no surprise that Mr Schüssel is determined to ride out the latest storm, caused by his government's plan to revamp Austria's expensive pension system. This time, though, it is less certain that he will manage to keep his cool.

Just about everybody, including all the main parties, agrees that pension reform is overdue. Some 15% of GDP is gobbled up by public pensions. Worldwide, only Italy is as profligate. Few Austrians work full-time beyond 60. But as they live longer, the pay-as-you-go system is becoming unaffordable. If nothing is done, in 20 years almost half of gross wages will be needed to keep the system afloat, says Bernd Marin of the European Centre for Social Welfare Policy and Research in Vienna.

The last two attempts to reform the system were too timid. In 1997, a Social Democratic-led government, with Mr Schüssel's conservative People's Party as a junior partner, ended up boosting pensions rather than cutting them. Three years ago Mr Schüssel, in coalition with Mr Haider's Freedom Party, raised the retirement age by 18 months, to 61.5 years for men and 56.5 years for women—and was vilified by opposition parties and trade unions for his supposed callousness.

This time, Mr Schüssel has decided to take a much more daring plunge. A few weeks after reviving his fragile coalition with the Freedomites, he presented a proposal to cut the benefits of new pensioners by 13.5% next year and to impose heavy penalties on people retiring early. Those now in their 30s could lose as much as 50% by the time they retire in the 2030s.

An angry reaction by Social Democrats and trade unions was expected but Mr Schüssel is facing revolt within his coalition too. The social-affairs minister, Herbert Haupt, who formally leads the Freedom Party, is one of the authors of the reform. But when Mr Haider blasted the government from his Carinthian redoubt and called for a referendum on pensions, Mr Haupt followed suit and disavowed his own work. Voices of dissent, even in Mr Schüssel's own party, are getting louder.

The proposals were plainly written in a hurry. For example, the government decided to extend the earnings period used as the basis for calculating pensions from 15 to 40 years. Fine, but they forgot to adjust earnings from decades ago for inflation. So some people may actually get far less out of the system than they paid into it. The main losers will be women who worked only part-time during their child-raising years.

One reason for the plan's sloppy design is the government's desire to reduce its own subsidies to the pensions system, which stand this year at *euro*7 billion ($7.5 billion). It needs to make savings as early as next year if it is to carry out its promised tax cuts of *euro*3 billion without breaking the deficit limit

decreed by the euro zone's stability and growth pact.

Moreover, the government has been politically insensitive by deciding to touch only pensions for those in the private sector but not the even more generous public-employee ones, which are drawn by some of the People's Party's most loyal voters. The plan also spares all those who are already retired and, worst of all, MPs and government members who in earlier years earned the right to retire at full pay with multiple pensions.

The uproar over these privileges may damage the government's plans more than the sniping from the opposition parties, which have so far failed to present any plausible alternative. If Mr Schüssel really wants to stay on course, he may have to sacrifice some of his own pension.

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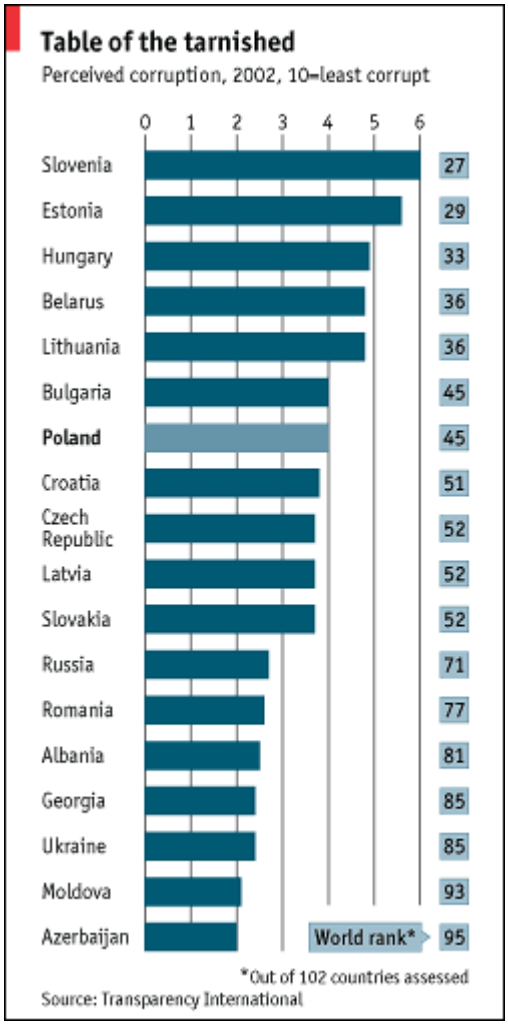
Corruption in Poland

Enough!

Apr 17th 2003 | WARSAW
From The Economist print edition

A parliamentary inquiry may lead to higher standards in public life

THREE years ago the World Bank's office in Warsaw issued a damning report on corruption in Poland and told Polish politicians to tackle graft as “a mainstream public concern”. It has belatedly got its wish. Since February Poles have been gripped by a parliamentary inquiry into allegations of high-level bribe-seeking, broadcast live on television. Might the revulsion provoked by the inquiry bring down corrupt politicians and businessmen and thus prompt a general clean-up of public life, as happened in Italy in the early 1990s? Maybe. But there is a long way to go.



The inquiry concerns allegations that Lew Rywin, a film producer, solicited a bribe of some $17.5m on behalf of the ruling (ex-communist) Democratic Left in return for amendments to a proposed media law that would have let Agora, publisher of Poland's best-selling daily newspaper, move into television. Though no big heads have yet rolled, the scandal has enfeebled Leszek Miller, the prime minister, who has been called to testify before the committee on April 26th. Poland's president, Alexander Kwasniewski, who is much more popular, may also be grilled. Both men deny any wrongdoing and no compelling evidence has been brought against them. Nonetheless, the inquiry is exposing murky ties between politicians, media bosses and regulatory officials. As a result, ordinary Poles are increasingly disgusted with, and cynical about, the post-communist establishment.

Nearly 70% of Poles now say that corruption is a huge problem, up from 46% in 2000 and 33% in the early 1990s, according to CBOS, a polling agency. “Everybody is mistrusted,” says Krzysztof Zagorski, its director. The mistrust may be growing in the current bleak economic climate, as contracts dry up and the bribes needed to win them get bigger. Indeed, Rafal Antczak of the Centre for Social and Economic Research in Warsaw thinks that Poland's politicians are making a last effort to have their palms greased while there is still some cash left in the till.

Judging by the most recent scorecard issued by Transparency International, an independent watchdog based in Berlin, the Poles are less corrupt than the Czechs and Latvians but more than the Hungarians, Estonians, Lithuanians, Slovenes and even Belarussians. In its latest progress report on Poland's fitness to join the European Union, which it hopes to do next year, the European Commission scolded Warsaw for not doing enough to tackle graft, especially in the police and border-guard services. The privatisation programme has stalled, and the senior civil servant in charge of one part of it resigned recently, apparently as a protest at the shenanigans that have stymied the sale of a stake in a state-controlled insurance company. Poland's chaotic health-care reforms, which have done little to curb the powers of dishonest hospital directors, have also drawn much criticism.

Poland's history is partly to blame. The country has been invaded, and indeed carved up, so often that the fragile flower of civic responsibility, rooted in respect for state institutions and their servants, has rarely had a chance to grow. “Poles lost their identification with the state in the 18th century,” sighs Grazyna Kopinska of Warsaw's Stefan Batory Foundation.

But more openness in business-cum-political dealings may be coming. The World Bank report of three years ago, listing a catalogue of malpractice, started a spate of anti-corruption initiatives. Poland's newspapers have pepped up their investigations. One, a couple of years ago, brought down a deputy defence minister in the previous government.

Some businessmen are beginning to speak out rather than pay up. The boss of a computer company, Optimus, recently came forward to complain about corruption among the tax authorities. Jan Maria Rokita, one of the more assertive members of the parliamentary committee investigating the scandal, has become quite a star, just as some of Italy's anti-corruption magistrates did in the early 1990s. So there is a chance that the inquiry may mark the start of something good.

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Hungary and EU membership

An unpersuasive referendum

Apr 17th 2003 | BUDAPEST
From The Economist print edition

Five out of six who voted said yes, but there weren't many of them

AP

A budding Euro-Magyar

WHEN Hungary decided in January to hold its referendum on whether to join the European Union on April 12th, it looked like especially good news for advocates of EU enlargement. Hungary had been one of the ex-communist countries most eager to join the Union, and would be the first of eight central European candidates accepted by the EU to ask its voters to agree, ahead of the more sceptical Poles and Czechs.

In the event, Slovenia voted first—and gave a handsome yes. But Hungary's voters ended up sending a more mixed message than expected: an 84% yes vote, but in a dismal turnout of only 46%, despite much exhortation about the poll's importance. Now the politicians, who briefly tried to put up a united front just before the referendum, have fallen to squabbling about who was to blame.

In fact, both Peter Medgyessy's Socialist-led government and Fidesz, the big conservative opposition party, were at fault. The campaign by the government-backed European Information Foundation was dull and irrelevant. One poster showed a small businessman asking whether he would soon be able to open a cake shop in Vienna (answer, yes). Such questions were hardly at the top of voters' minds.

Meanwhile Fidesz had argued unenthusiastically that on balance it was best to join the EU. But until the last few days nearly everything else it said seemed to be aimed at pleasing its more nationalist supporters. In January, Viktor Orban, prime minister in the Fidesz government narrowly beaten a year ago, said that today's Eurocrats view Hungary much as its former Soviet masters used to.

Mr Medgyessy's friends say Fidesz was keen to avoid a strong yes, because that would have boosted him. No, says Fidesz, it was merely drawing attention to the drawbacks of joining the EU, such as the 100,000 jobs which (it had claimed) would be lost.

The heart of the argument is national identity. Of the ex-communist countries, Hungary has been the readiest to sell assets to foreigners. Though some people grumble, the prominence of foreign firms in the economy provokes remarkably little resentment. Yet many Hungarians are ready for a bit of flag-waving nationalism, and Fidesz in turn is ready to provide it. Fewer of its supporters than those of other parties turned out for the referendum, one poll has found; some of those who did worked for the no campaign.

The clear majority in the referendum suggests the Hungarians favour the EU, but the low turnout suggests last year's election result may be more revealing. It showed the country pretty evenly divided—and may mean that the Eurocrats will have to deal with a country that is at times relaxed and co-operative, at times prickly and nationalist.

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Charlemagne

Happy families

Apr 17th 2003
From The Economist print edition

A letter home from a participant at a European summit in Athens has fallen into our hands

Dear All

I'm penning this on the eve of our great family reunion beneath the Acropolis. Frankly, I'm rather dreading it. Oh, I'm sure the formal bits will be OK—the youth orchestra will belt out Beethoven, the treaties to welcome our new cousins from the east will be signed, and everybody will smile cheesily for the family photo. But some of those grins will be a little forced. The great European family is looking seriously dysfunctional these days.

As you know, Uncle Tony and Uncle Jacques are barely speaking to each other. They claim to have patched things up on the phone, but every time they're in the room together everyone is glancing nervously at them, just waiting for the next blow-up. Still, at least Tony has lost the haunted look that has hung about him at our recent family gatherings. He arrived in town looking cocky as hell after his "triumph in the desert". He's trying to be modest and we're trying to pretend that we're all really pleased for him—although frankly only José María (you remember our glum-looking Spanish uncle?) seems to mean it.

And of course because Tony is up, Jacques is down. If it were anybody else, I'd feel sorry for him. It's not just Iraq. Obviously Jacques has never been too keen on letting ten new country-bumpkin cousins into our grand old family. He thinks they lower the tone, and are after his money. Of course, he's putting up a show of bonhomie. But we all know what a terrible temper he has. Remember the last big family knees-up, when he suddenly exploded at all the little ones and told them to shut up and go to bed? Nobody's going to forget that in a hurry!

Oh la la!

It doesn't help matters that despite all their protestations of devotion to the great European family both Tony and Jacques are having affairs. Tony is constantly mooning after that ghastly American, George (what does he see in him?). As for Jacques, he's having a bit on the side with a sinister little Russian—Vladimir, I think his name is. Then the pair of them breeze in here and tell us that they've been thinking about us all the time—the family remains top priority and so on. Who are they kidding? Don't they know we read the papers?

And what of all the other members of our wonderful extended family? It seems strange now to remember that a couple of years ago we all thought that Uncle Gerhard was going to boss the family around. After all, he's got that great big piece of real estate bang in the middle of the continent (you know what they say, "location, location, location.") But these days he cuts a rather sad and distracted figure. They say he's got money problems back home. Servant problems too. Mind you, he still looks quite bouncy, with that great shock of *very* black hair. Touchy, though. Do you know, when somebody said he dyed his hair, he actually sued him? You'd think he has better things to do with his time.

Godfather Silvio, of course, is trying desperately to be the life and soul of the party. But we all rather cringe at his stream of off-colour jokes. (Our Nordic cousins look particularly pained.) And he *will* flash his money around. Remember that mini-family do in Italy, when he gave us all Rolexes as a going-away present? We all thought that horribly vulgar—though I couldn't help noticing that nobody actually gave them back.

Anyway, our Greek hosts are being fearfully jolly. They're loving giving all these parties and poncing

around as “president of Europe”. Well, you have to make the best of your six months. Also, one of them told me they rather enjoy letting all these poorer relations into the family. It means that Greece won't be the poorest and scruffiest cousin any more. Well, that's what they say.

Of course, the event we're all most looking forward to is the speech by Grandpa Giscard on the future of Europe. Not. Gosh, that man is fond of the sound of his own voice. It's hard enough to sit through a Giscard oration at the best of times. But, frankly, what with all the chaos in the rest of the world and all the bad feeling inside the family, all those protestations about the “ever closer union” of our great European family are beginning to sound a bit farcical. Naturally a lot of our family elders are saying that all our current troubles just prove that we all need to pull together more tightly. But I'm afraid that's what they always say.

So many cousins to coddle

I think one of the problems is that, now the family has grown to 25, it's just not the same. There are just too many of us to act as one happy, cosy little unit. So little cliques form and chat away to each other in corners: the Balts are inseparable, the Nordics have these earnest, bearded sort of discussions, and our founding six cousins still think they're better than the rest of us, just because they were there in Rome in 1957. And Uncle Jacques and Uncle Gerhard still have a disconcerting habit of disappearing off into a room for secret little chats alone, then coming out and telling us they've got a great new idea they're sure we're all going to just love. Frankly, some of us are getting a bit tired of that routine.

Still, if there's one bright spot, it's our new boys and girls. They're a little bit worried that the rest of us secretly look down on them. And of course we do. But overall they are just soooooh pleased to be in the family. It's sweet, it really is. And despite all the grumblings from the likes of Jacques about how much it's going to cost to do up their wing of our great European bungalow, we should be grateful to have them. At least they've got a bit of energy and life about them. And they've been through so much that they rather relish a spot of turmoil. Makes a nice change from our older lot. They like things orderly.

Anyway, I can hear the sound of plates smashing downstairs. The festivities are beginning. Must dash.

Love, Charlie

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Education

Hard numbers

Apr 17th 2003
From The Economist print edition

Maths and science have gone into a dangerous decline in Britain

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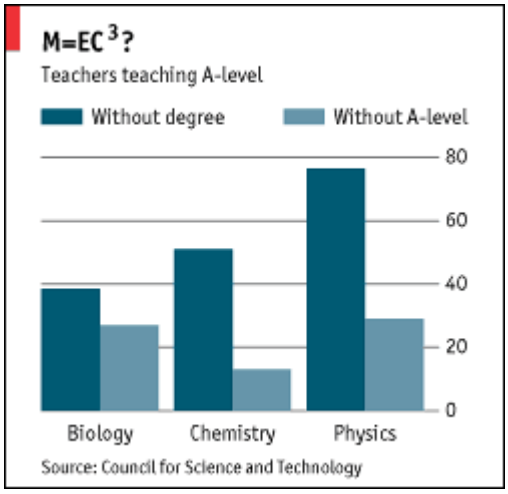

THE rare sound of backs being slapped echoed around the offices of British education bureaucrats this month, with the news that an international survey showed children in the country's primary schools the third-most-avid readers in the world, after Sweden and the Netherlands. But although it is gratifying that the move back to basic classroom techniques is paying off in reading, there is worrying news from other bits of the curriculum.

In the country that discovered gravity, evolution and DNA, maths and science are on the slide. Numbers of secondary school pupils studying these subjects are falling. Candidates for physics A-level are down by a sixth since the mid-1990s. For maths A-level, they fell by a fifth in the past year alone. The authorities' response is to make the course a lot easier, starting in September 2004.

Which points to the other side of the problem, the fall in quality. Today's exams—not just in maths—are much easier than in past decades. Simultaneously, their importance has grown. Schools tend merely to teach for the test rather than taking time also to impart skills that will be useful to pupils in later life—to make sense of data, spot trends and mistakes, and use spreadsheets.

Employers and universities alike are dismayed. The Ministry of Defence, for example, started a large remedial maths programme when it found that soldiers with a ‘C' pass in GCSE maths (normally taken at 16) were often baffled by fractions.

University departments in science, engineering and economics find it hard to teach people whose grasp of algebra, calculus and statistics is weak or worse. Around half the country's universities now have remedial maths-teaching centres for new students who fail diagnostic tests. These uncover startling gaps—at least compared to what was taught in the past. Coventry University's tests show that those with a ‘B' grade at A-level now have the same or worse maths as those with an ‘N' (fail) grade in 1991.

There is a limit to universities' gap-plugging abilities. If students are really flummoxed, they will drop out rather than catch up. At worst, that means departments simply close. King's College London said this week that its chemistry department, a pioneer in discovering DNA, was “unsustainable”. Applicants to read chemistry have declined by more than a sixth since the mid-1990s.

Maths and science are suffering most from a series of problems that afflict education as a whole. Teachers across the system are ageing, but the problem is acute in maths and science. Recruiting people to teach those subjects is getting ever harder. There is a shortage of 3,500 qualified maths teachers alone. Last year just 350 newly graduated mathematicians went into teaching.

One of the main reasons why maths and science graduates are in such short supply is increasing demand for their skills: good maths graduates are snapped up by, for instance, financial-services firms. Whereas most new history teachers have good degrees, most maths teachers have bad ones. That creates a vicious circle. Subjects badly taught now will produce fewer teachers in future.

The government has an array of carrots to attract maths and science teachers, but keeping them is

difficult. Bad teaching elsewhere, often by non-specialists, has left many pupils thoroughly put off the subjects. They are no fun to teach. Rowdy classrooms and antique facilities make lab work in science subjects difficult.

Even good teachers with good students suffer from the fashion for syllabuses divided into easy-to-test chunks, called modules. These may work in, say, English, but not in maths and science. In chemistry A-level, for example, the “what” and “how” of reactions are taught quite separately. In maths A-level, pupils hop from topic to topic, never gaining the fluency in, say, algebra, that comes from frequent practice.

The increasing importance of A-level points scores for university admission—because other ways of assessing students' abilities, such as interviews, have faded away—also makes maths and science unpopular. Maths has one of the highest failure rates of any A-level. Fear of failing outweighs what ought to be a powerful signal: maths A-level is one of very few educational qualifications tied to a measurable economic benefit—around 10% higher earnings.

Even students who want to study maths and science face obstacles. Since pupils now have to do four subjects rather than three in the first year of the sixth form, the limited number of science and maths teachers is under even greater pressure. That makes it harder to accommodate logical, self-reinforcing combinations such as maths, physics and chemistry. State schools have all but abandoned the only really demanding course, further maths.

There is no quick fix. The government is rethinking post-16 education, and may well plump for a continental-type school-leaving qualification, where everyone does at least some maths until they leave school. That would please employers wanting more general numeracy. It has also set up a maths inquiry under a top university administrator, Adrian Smith of Queen Mary College. His report, due out in the autumn, may make painful reading for some vested interests in the education world.

An obvious long-term answer is to pay teachers more in hard-to-fill posts such as maths and physics. That would breach the taboo that all subjects are of equal value. In the short-term, it may be necessary to tap the universities' maths expertise. Students and postgraduates may be pleased to earn some pocket money teaching in schools, but academics may not. Moreover, the teaching unions guard jealously their monopoly on the blackboard. Saving British maths and science education will mean binning such cherished notions. If so, other subjects may benefit too.

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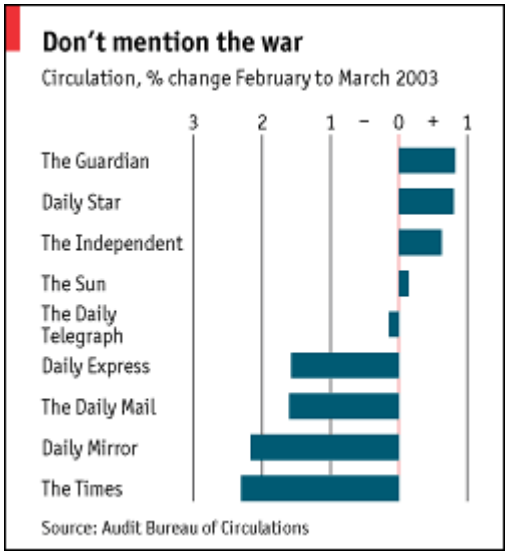
Paper wars

Losers

Apr 17th 2003
From The Economist print edition

For a broadsheet paper, the left is the place to be right now

ALL newspapers lost the war. Anti-war broadsheets did best (see graph) and anti-war tabloids worst—posh people tend to be against the war, and the working classes for it—but the cost of war coverage and scared advertisers outweighs any gain.



Pain is greatest at the *Daily Mirror*, where circulation has gone below 2m for the first time since the second world war, and at the Telegraph group. A credit-rating agency this week downgraded its debt by four notches, to just above junk bond status. The editor of the *Daily Telegraph*, Charles Moore, takes comfort in the even faster circulation decline at the *Times*.

Money blown on special late editions and foreign reporting must now be saved elsewhere. But a new survey of marketing spending by businesses shows advertising budgets are still being cut. The only exception is the public sector recruitment advertising, fuelled by the extra billions of taxpayers' money being pumped in by the government.

The left-wing *Guardian* is benefiting from this, as well as from its circulation boost. Its hefty Wednesday supplement is full of oddly titled jobs involving words like “project”, “outreach” and “community”. This week's 120 pages include a “customer strategy director” in a government department, with a “focus on outcomes” and “self-starting mindset”, all for £110,000 ($173,000).

The *Times* is trying to muscle in on this, with a new Tuesday supplement. So far it seems a pale imitation, however, with only 24 pages and nothing more ludicrous-sounding than a “head of policy development” at the Sector Skills Agency (an outfit that tries to apply planned-economy principles to industrial training) on a mere £50,000.

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Northern Ireland

History is still with us

Apr 17th 2003
From The Economist print edition

Northern Ireland is far from sorted

SPEAKING at a press conference at last week's summit in Northern Ireland, George Bush praised republican leaders as people who “have agreed to say that history is just that, history, and they look forward to a future in which young generations of Northern Irish can grow up in peace.” If only they had. Despite the widely-held belief abroad that Northern Ireland is sorted, the peace process is in deep trouble once more.

Last week, the IRA was supposed to announce that its war was over. In return, the government would publish a blueprint for the next stage of the peace process. But the statement the IRA came up with did not go far enough, so the launch of the blueprint was cancelled at a few hours' notice. A second draft did no more than suggest that, given the right conditions, the IRA might stop all activity at some point in the future. As *The Economist* went to press the prospect of anything better looked slim.

Although the peace process has achieved a lot, the IRA has never really gone away. The ceasefire has been breached repeatedly. The question of IRA involvement in Colombian terrorism is still before a Colombian court. There has been a score of killings, gun-running, punishment shootings and espionage in the Northern Ireland Assembly. Extreme unionist loyalist violence has taken many more lives in recent years, but loyalists have no political party in government.

Republicans appear to want to retain both the respectability they have won by working democratically and the leverage they gain from the implied threat of further violence. As a British official laments, “I don't know which is more worrying, the thought that maybe Adams and McGuinness can't do anything, or that they can, but they won't.”

The IRA's behaviour is sharpening unionist hostility to power-sharing. Unionists have always seen the Good Friday Agreement as nationalist and republican-inspired. David Trimble, leader of the Ulster Unionists, the biggest unionist party, triggered the suspension of the devolved government when last October, following the spying scandal, he demanded that Sinn Fein be excluded from the government. Elections to the Assembly are due on May 29th, but if the IRA does not move before then, direct rule from London will continue—at least until the autumn, when the talking may start again.

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Financial services

Where the hedge funds hide

Apr 17th 2003
From The Economist print edition

How St James's became an international financial centre

Get article background

TIME was when St James's, in London's West End, had a reputation altogether more louche than the staid one it now enjoys. In the early 19th century it was notorious for prostitution and gambling. Over the years bordellos and gambling dens were replaced by expensive clothes shops, art galleries, and, among other icons of respectability, the London Library, the Institute of Directors and *The Economist*. These days the pleasures of St James's are a bit more restrained: overpriced restaurants and gentlemen's clubs of the port-and-cigars rather than women-taking-clothes-off variety (though Mayfair, to the north of St James's contains some of the most expensive brothels in London).

But something of its former raffish atmosphere may be returning, for St James's has become a financial centre of international stature. As the undisputed home of the European hedge fund, the fashionable type of investment fund favoured by the very rich, St James's now rivals, if not the City, at least Frankfurt.

Statistics on financial-market operators are generally old and meaningless; the last comparisons on the amounts managed in international financial centres were made in 1999 when markets looked a little different; and nobody has produced a study of how many investment funds there are in St James's nor how much they manage. So *The Economist* has compiled its own survey (research tools: a map, a pen, some friends and several cups of coffee).

The results were startling. We counted nearly 100 hedge funds (the figure includes a sprinkling of private-equity funds) in St James's and Mayfair alone. The funds range from the famous (Soros, KKR, Blackstone), to the hopeful (Endeavour), the prosaic (International Asset Management), and the frankly odd (Camomile, TT, Zebedee). In total we calculated that they managed $150 billion or thereabouts, though leverage means that the assets they control might be twice that—which would mean that more money is managed in St James's than in Frankfurt.

Why St James's? There is undoubtedly a cluster effect: once a few have set up shop others think it the

place to be. And the area's respectability no doubt appeals to an industry often suspected of shady practices. Canary Wharf's chief virtues—cheapness and lots of space—hold little allure. Most hedge funds are small affairs, often with a star trader or two, and a few people to handle the back-office work. The traders, usually investment-banking émigrés, are anyway wealthy and charge fees high enough to make them still more so.

Some of them want to live near their work, and St James's or Mayfair have plenty of swanky bachelor pads. For the family man, the area is convenient for London's most expensive family houses, in Holland Park and Notting Hill Gate. The shops, restaurants and bars are good (Che and Just on St James's Street swarm with hedge-fund types after work). And the hedge funds don't need to worry about being close to the City to shorten their journey times to meetings. These days, they manage so much money that the City boys come to see them.

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Politics and comedy

Blair v Bart

Apr 17th 2003
From The Economist print edition

Tony Blair gets the ultimate accolade

Get article background

FOR Britons waiting for some gesture in recognition of the risks that Tony Blair has taken for the transatlantic alliance, satisfaction has come at last. Mr Blair is to be admitted to the grandest of American halls of fame. He has been given a bit part in “The Simpsons”.

By recording his voice to go with his cartoon character, Mr Blair not only gets to join a star-spangled crowd of celebrity guests that includes Bill Clinton and most of Hollywood, but might also win back a little of the credibility his stance on the war has lost him among the generally left-wing British intelligentsia. “The Simpsons” is not just the most successful cartoon on American television, but also a brilliant satire on American religion, society and politics. The right usually comes off worst, which is why it is the favourite programme not just of countless six-year-olds but also of such luminaries of the left as the Archbishop of Canterbury and Glenda Jackson, an actress-turned-politician.

The trouble is that, in these extreme times, reality becomes hard to satirise. The Simpsons' main contribution to the war effort was the line “cheese-eating surrender-monkeys”. It was intended as a caricature of the American right's attitude to the French, but has been taken up gleefully by Francophobes and used to taunt cheese-eating surrender-monkeys everywhere for their lily-livered pacifism.

Still, “The Simpsons” are unlikely to treat Mr Blair badly. They are gentle with visiting celebrities, to ensure a steady flow. Mr Blair will probably get more joy out of it than the audience. Politicians trying to be funny rarely are. The true comic turns are unintentional, as Mohammed Saeed al-Sahaf, the former Iraqi information minister, who became a global television star for his pantomime refusal to admit that American tanks were thundering into the picture behind him, has shown.

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Schools

Where's all the money gone?

Apr 17th 2003
From The Economist print edition

The holes in schools' budgets are mostly the result of redistribution

Get article background

LAST July, education was the centrepiece of the government's spending review. Ministers trumpeted a £15 billion increase in spending in the three years to 2005-06. The slogan of Labour's autumn party conference was “schools and hospitals first”.

But in the first year of the bonanza, head teachers are complaining about the worst financial crisis in over a decade. Some schools are saying they will have to lay off teachers, others are lurching into deficit. Heads say the extra money will not meet their rising costs. They complain in particular about a big increase in pension contributions for teachers, from 8.35% of salary to 13.5%. On April 15th, at the annual conference of the Association of Teachers and Lecturers, the schools minister, David Miliband, was barracked on the issue and threatened with industrial action.

The government says that a cash increase of almost 12% takes account of this extra pension cost. On a like-for-like basis, the schools budget is rising by 6.5%. Since pupil numbers are increasing, mainly because of the extension of nursery education to three-year-olds, this is worth 5.2% per pupil in cash terms.

On the face of it, that should be enough to cover a pay award of 2.9% together with the 1% hike in employers' national-insurance-contribution rates. But schools are also facing other cost pressures, such as a rise in the extra pay that teachers get as they move up the salary ladder. More important, not every school is receiving an extra 5.2% per pupil.

That average increase filters down from Whitehall into the classroom via England's local authorities. The government has invented a new formula to work out how much each council is supposed to allocate to schools. One purpose is to direct more money to deprived children. Another is to deal with teacher shortages across the country through a national “area-cost adjustment” rather than the specific help that London and the south-east used to receive. This year, a system of floors and ceilings is cushioning the impact of the formula. Spending is going up by anything between 3.2% and 7%.

London and the south-east are doing worst. “Counties like Essex and Kent are receiving much less than in the past whereas cities like Manchester and Bristol are gaining,” says George Phipson, a funding consultant to the National Association of Head Teachers. Councils cannot boost education spending much by raising council tax, because most of their money comes from central government, so a huge increase in tax rates means only a small increase in their revenues.

The money finally reaches schools after councils have distributed it according to their own formula. This is based mainly on pupil numbers, so shrinking schools will get increases lower than the 3.2% per-pupil floor. “The losers tend to be schools with static or declining rolls in more affluent authorities,” says Tony Travers of the London School of Economics.

The clash over money highlights two fault lines in Labour's strategy for public services. One is the tension between the government's desire to appeal to middle England and its wish to tackle the educational roots of inequality. The other is its attempt to direct the outcomes of policy from Whitehall while paying lip-service to local autonomy. The trouble with trying to run everything is that you are held to account for everything—by losers as well as by winners.

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Railways

The worst of both worlds

Apr 17th 2003
From The Economist print edition

State bail-outs for rail operators are bad for passengers and taxpayers

Get article background

THE privatisation of half of Britain's railways was reversed when Railtrack, the owner of the tracks, went into receivership last year. Network Rail, its successor, is now wholly dependent on Treasury guarantee and so, in effect, renationalised. Now the other half of privatisation is being undermined, as the train operating companies (TOCs), which run the rolling stock, are being bailed out and are therefore losing their independence.

Six of the 25 TOCs are operating under short-term management contracts, and seven have been given taxpayers' money amounting to more than £100m to stop them from going bust. Connex South East got £58m last December. Some board members of the Strategic Rail Authority (SRA), which runs the industry, raised doubts at the time about whether this was a sensible use of taxpayers' money. Concerns go wider. The National Audit Office will shortly begin an inquiry into whether propping up insolvent train operating companies makes sense.

New franchise contracts mean that TOCs will no longer have much incentive to attract passengers. In future they are to be compensated for shortfalls in fares. If passenger numbers are more than 6% below target, the SRA will bear 80% of the loss in revenues. On shortfalls of 2% and above, the SRA will bear 50% of the loss. “We want the primary risk taker to be the franchise operator but we think it makes sense to damp down some of the volatility,” says Richard Bowker, head of the Strategic Rail Authority.

Nor will TOCs have the freedom to run their businesses in the way they think will attract passengers. The new management contracts specify in excruciating detail everything from the state of antimacassars to whether the toilet lids are up or down and how many bits of litter are allowed in each carriage. All this, no doubt, will require an army of inspectors. People in the industry worry about the effect this will have on management. “You have to be very careful not to turn people from being focused on people to being focused on contracts,” says George Muir, the head of the Association of Train Operating Companies, with masterly understatement.

The government wants to ensure that no TOC goes bust because it fears disruption of rail services. But the consequence is that the TOCs operate neither under the disciplines of the market, which should make them more efficient, nor under those of the public sector, which could keep their spending under control. “What we have got is neither fish nor fowl,” points out Stephen Joseph of Transport 2000, a pressure group. “It completely undermines whatever benefits anyone has got from the privatisation of the passenger rail network.”

Mr Bowker is unapologetic about his efforts to get a grip on rail companies. “There is still too much sloppy, substandard delivery of services,” he says. True; but, as the NHS shows, a centralised bureaucracy is no guarantee of high standards.

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Scottish and Welsh elections

A profusion of confusion

Apr 17th 2003 | EDINBURGH
From The Economist print edition

Political parties are proliferating in Scotland

DEVOLVING power to assemblies in Scotland and Wales was all about making democracy work better in these parts of Britain. There's certainly a lot of it about. North of the border, no fewer than 32 parties are standing in May 1st's elections to the Scottish Parliament. Whether this makes for a higher quality of political life is debatable.

As well as the four main parties (Labour, Scottish National, Liberal Democrat and Conservative), Scottish voters are offered five left-wing parties and eight non-left parties ranging from the Greens to the British National Party. Then there are four rural parties, four hospital campaign parties, two pensioners' parties, a couple of religious parties, one Fishing Party and two others which defy neat description. Admittedly, most of these parties are standing for only one or two of the 129 available seats but, even so, voters in the Lothians region can choose between 12 parties and five independents.

Proportional representation helps explain this menagerie. Voters pick 73 constituency members of the Scottish Parliament (MSP) in the usual first-past-the-post way. They also have a second vote which is cast for a list of names provided by parties. Additional MSPs (56 from eight regions) are added from the lists so that the parties' share of MSPs equals their share of the vote.

This system allowed two constituency also-rans—a Green and a Trotskyite—to get into the parliament in 1999. Their success, plus media enthusiasm for mavericks, may have encouraged others, says James Mitchell, professor of government at Strathclyde University.

A broader reason is voters' frustration with centralisation. Local councils, which should have power over local affairs, don't. Local issues, therefore, have to be taken to a national forum. The hospital campaigns are motivated by Glaswegian anger at hospital closures. And some issues have gone way beyond the reach of Scottish politicians. The Fishing Party, standing in north-east Scotland where most of the Scottish fleet is based, says that Scottish ministers have completely failed to defend Scottish interests; but its argument is really with Brussels.

Voters feel that, although some power has shifted from London to Edinburgh, decision-making is still distant. That comes out in opinion surveys. A poll of 1,600 online readers of *Scotland on Sunday* newspaper found that 29% thought the Parliament a failure; 26% thought it a success. That's not necessarily a representative sample, but it sounds about right. Still, it doesn't seem likely that new parties or even old opposition parties will benefit. More likely, voters will stay at home. Opinion polls suggest that the turnout in Scotland is unlikely to be more than 50%.

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Tories and race

Oliver's new friends

Apr 17th 2003
From The Economist print edition

How the Tories hope to deal with their old race problem

ON APRIL 10th, at a meeting of religious and ethnic minority leaders in London, Oliver Letwin offered a 4,200-word paean to Britain's multicultural society. The shadow home secretary quoted *Guardian* editorials, left-wing commentators and liberal religious figures. He lavished praise on grassroots organisations such as the Haile Selassie Peace Project, a group of Birmingham Rastafarians who accompany the police on their rounds. He used the word “community” 32 times, and mentioned asylum-seekers only once (approvingly).

It is rarely wise for politicians to speak about race. They tend to come over as too intolerant or too trite, and their arguments are readily reduced to soundbites—“rivers of blood” (Enoch Powell, 1968); “chicken tikka masala” (Robin Cook, 2001). In these treacherous waters, though, Mr Letwin is faring better than most. He takes a populist line, condemning the government's bureaucratic, top-down approach to race relations while praising the work of home-grown black and Asian activists, many of whom he has actually met.

A revolution in Tory thinking? Not exactly. The party has long courted Asian businessmen's votes, and has recently turned its attention to middle-class Africans. During the London mayoral campaign, Steven Norris praised black and Asian community groups in much the same terms as Mr Letwin is now using. According to Simon Woolley of Operation Black Vote, a non-partisan body, Mr Norris's campaign was the real revolution, “the first time in British political history that a major Tory politician managed to articulate a doctrine that appealed beyond the middle-class black voter”.

On a national level, however, the Conservative Party will have a harder time making itself heard. According to MORI, just 12% of non-white voters went for a Tory candidate at the last election, down from 1997. The party was not helped by the intervention of John Townend, then a Yorkshire MP, who complained that the government was trying to turn Britons into a “mongrel race”. Yet Mr Townend's comments merely revealed an existing tension between the studiedly inclusive central office and the cardigan Conservatives in the heartlands. If Mr Letwin wants to take the party in a new direction, he is going to have a fight on his hands.

Yet the Tories must do something. Exclusionary politics tends to feed off itself, with all-white parties putting up all-white candidates, who then attract only white voters. In America, the Republican Party has lost its grip over African-Americans, seemingly for good. George Bush Senior's share of the black vote slipped from 12% to 10% between 1988 and 1992, when he lost to Bill Clinton. In the last election, George Bush, ever keen to avoid his father's mistakes, ran a rainbow-coloured campaign in which Colin Powell featured prominently. He won 9% of the black vote.

Nobody benefits when political parties become ethnically exclusive. It is bad for the parties themselves, particularly those on the wrong side of a demographic trend. In Britain, blacks and Asians are becoming more numerous, and, in some quarters (urban Muslims, for example), more inclined to vote. But the real victims are ethnic minority voters, whose allegiances can be taken for granted, and thus ignored.

For all these reasons, the Conservatives' change of direction is welcome. And its timing may be propitious. Next month, the Letwin roadshow will stop at the Muslim Council of Britain—a group that, like many others, is still grouchy about Labour's handling of the war. Its members may well be in a mood to teach their traditional party a lesson. Whether they can be persuaded to vote Conservative is, of course, another matter.

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Bagehot

The spoils of war

Apr 17th 2003
From The Economist print edition

Tony Blair has gambled and won; things will not be the same

THERE was no triumphalism and, however tempting it must have been, no victory roll over the carpers and doubters on the benches behind him. The prime minister's statement this week to the House of Commons on the war's successful conclusion was perfectly pitched to a national mood that is more relieved than joyful. His sober message was that he would do everything in his power to ensure that Iraq's future demonstrated that this had been a war worth fighting and winning. For the people of Iraq, whatever difficulties lie ahead, that will almost certainly be true. But will it also be true for Tony Blair?

Whether or not weapons of mass destruction are now found, the unspeakable evil of Saddam Hussein's regime and the evident pleasure of ordinary Iraqis that it is gone is enough, in most people's eyes, to vindicate Mr Blair. After enduring the most testing months of his political career, the latest polls suggest that the prime minister's popularity has more than recovered.

What the polls don't reveal is how the nature of that popularity has altered. Mr Blair used to be liked because he said things that nearly everyone could agree with and because he seemed to be a decent and reasonably normal chap. That was always simplistic: a toothy grin and easy charm would not on their own have turned the once-unelectable Labour Party into a political juggernaut. But now Mr Blair is widely seen as a resolute leader, prepared to take risks for what he believes in. And in this there lies both danger and opportunity.

The opportunity for Mr Blair is to harness this new perception to his flagging domestic agenda. For at least a year, he has made known his frustration at the slow pace of public sector reform. Despite the huge power supposedly wielded by British prime ministers, he has too often found that the levers he was pulling weren't attached to anything. Cabinet colleagues would pay lip service to Mr Blair's desire for more radical approaches to public service delivery, but didn't feel under much pressure to think creatively or actually to do anything. For most of them, the real centre of power in the government was the Treasury rather than Number 10. When it came to shock and awe, it was Gordon Brown rather than Tony Blair who had the heavy ordnance.

That has changed. The cabinet, with one or two famous exceptions, was steadfastly on-message throughout the difficult phoney-war period when speculation about Mr Blair's prospects was at its most feverish. Whether or not events had gone badly for the prime minister, there would have been little to be gained from disloyalty. But even before the successful conclusion of the war, the most crucial power relationship within the government had subtly altered.

Mr Brown's influence has waned as the fiscal situation has deteriorated and with it his ability to dispense discretionary largesse. As for Mr Blair, all depended upon his great gamble, a gamble that most had already calculated he would win. The caution and modesty of the prime minister's public pronouncements are at odds with his new ascendancy. With a large-scale cabinet reshuffle promised for the summer, at least for the time being, what Mr Blair wants, Mr Blair will get.

In practice, that means no backsliding over contentious issues such as giving some independence to hospitals and charging university students for more of the cost of their education. Nor will any quarter be given to the firemen if they resume their suicidal strike. The possibility of a series of rolling backbench revolts might once have worried the prime minister, but is unlikely to do so now. Just as voting against the government could become habit-forming for some MPs, so will ignoring them become quite easy for the prime minister. Loyalists who voted against the war as a matter of conscience have already been forgiven, but the hard-core rebels who tried to turn the prevailing unease into a concerted attempt to undermine Mr Blair can expect little mercy from the whips.

The danger for Mr Blair would be if, like Margaret Thatcher, he came to believe in the cult of leadership. For her, nemesis came in the form of the poll tax. For Mr Blair it could be the euro. The polls may be more discouraging than ever—the latest, from ICM, indicates that, since Britain fell out with France and Germany over the war, anti-euro sentiment has risen to nearly 70%. But a hubristic Mr Blair might reckon that just as he turned opinion round over Iraq, he could do the same for the euro.

Bond of brothers

The signs point in the opposite direction. With less than six weeks to go before the Treasury must pronounce on the five tests and thereby decide whether or not there will be a referendum on joining the euro in this parliament, the prime minister seems to have reconciled himself to a “not yet” verdict from Mr Brown.

There are a number of possible reasons for this. The first is that, having read through the 2,000 pages the Treasury has produced to support its arguments, Mr Blair was bowled over by the brilliance of the economic analysis. The second is that he has decided a referendum is unwinnable. The third, and most intriguing, is that the war has helped bring about a rapprochement between the two men. When Mr Blair most needed him, Mr Brown, against some expectations, was there: generously speaking up for his former friend; cajoling his own supporters into the lobbies; and even, rumour has it, lending a hand in the writing of a couple of key speeches.

There have been times when the chancellor has driven Mr Blair to distraction. But the shift in their relative power caused by the war and the worsening economy could make their relationship easier, especially if, as now seems likely, both are resigned to waiting for a few more years: in Mr Blair's case to join the euro; in Mr Brown's to become prime minister. If so, the government will be the stronger for it.

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Keeping the lights on

Apr 17th 2003
From The Economist print edition

Getty

South Korea has great economic strengths and a flourishing democracy. But both need protection from outside threats, says Brian Barry

NIGHT-TIME satellite photographs of the Korean peninsula show an expanse of light surrounded by darkness. Those eerie images from the heavens demonstrate starkly just how far Korea's two halves have diverged economically since its division more than half a century ago. In the early days of the cold war, South Korea, like its northern cousin, was a poor, war-torn country. But its alignment with America and the West has not only protected it from the communist North, it has also given it access to international markets of which it has made impressive use. By combining this with hard work, a willingness to take risks and an appreciation of market forces, it has rapidly built an advanced industrial nation of 48m people.

North Korea, meanwhile, has remained poor and internationally isolated. It continues to repress its underfed population of 22m, and cannot even muster enough resources to light the place at night.

For all South Korea's success, though, a couple of sharp divisions have appeared within the country itself. One concerns the country's approach to security. Many young South Koreans in particular believe that the best way to deal with North Korea's regime is to coax it out of isolation, by talking nicely to it and giving it the fuel and other resources it needs. In their view America is being too hawkish, making matters worse.

Their champion is Roh Moo-hyun, a previously little-known lawyer who became South Korea's president in February. Mr Roh (pronounced “no”) is a member of the Millennium Democratic Party (MDP), as was his predecessor, Kim Dae-jung. Mr Kim consistently advocated a “sunshine policy” of engagement with the North, and earned himself a Nobel peace prize. Mr Roh's critics, mostly older South Koreans, point out that the North is still run by a vile regime and remains a powerful enemy, with enough artillery to plunge South Korea into darkness too.

The other big division in the South hinges on the role of the rich and powerful, and the perceived injustices and inequalities that have emerged as the country has grown. Many of the new president's associates were human-rights advocates, labour activists or other dissidents during South Korea's authoritarian days, and in the past some of them have argued for redistribution of wealth. Mr Roh himself has criticised the *chaebol*, the giant family conglomerates that drove the country's rapid development and still dominate its business landscape. Neither the president himself nor most of his entourage have

much political experience. All this stoked fears that Mr Roh's administration might turn the country too sharply to the left, endangering its status as an economic star in the region and a bulwark of Asian security.

Nevertheless, it seems clear that Mr Roh's election is another big step forward for Korean democracy. The country began to emerge from authoritarian rule in 1987, a year before it was due to host the summer Olympics. When the president of the day, Chun Doo-hwan, tried to rejig South Korea's constitution so that he could continue to pull the strings after his long-promised resignation, he was faced with a series of huge demonstrations. These forced him to allow the first genuine direct elections in more than three decades. Since then South Korea has taken successive strides towards more enlightened and representative government, with greater freedom for its citizens to participate and voice their views. Mr Roh's victory, like those of each of his three predecessors (Korean presidents serve a single five-year term), puts even more distance between the current political system and the authoritarian regimes of the past.

The winner of the 1987 election, Roh Tae-woo, restored full political rights to Kim Dae-jung, who at various times in the past had been silenced, kidnapped, exiled and nearly executed by the military regime. Roh Tae-woo also released a number of political prisoners and relaxed a few rules, but he continued to keep a close eye on dissidents and made sure they kept quiet. And because Roh Tae-woo would have been Mr Chun's chosen successor even without free elections, and was also a military man, his five-year presidency was only a partial move towards democracy.

The election of his successor, Kim Young-sam, was a clear improvement. Not only was he a civilian, but he had opposed the authoritarian regime in the past. Yet his democratic credentials were tainted because he won the 1992 election through an alliance with Roh Tae-woo's party. The election of Kim Dae-jung in December 1997, following South Korea's bail-out by the International Monetary Fund, marked yet another distinct step forward. But his administration, like those of his predecessors, was plagued by high-level corruption, and both his age (72 at the time he was elected) and, in an odd way, his long history of dissent and opposition still tied him to the past.

Exchange rates
Won, April 7th 2003

$1=	1,257.60	€1=	1,336.55
¥1=	10.45	£1=	1,949.09

The election of Roh Moo-hyun, aged 56, represents a generational shift, giving South Korean democracy another lift. All the three political leaders who have ruled the country during the past 15 years were already established political figures back in 1987, and over the past decade the electorate has become bored with that older generation. Now South Korea is at last governed by a new man, breathing fresh air into politics, tapping new, younger supporters, bringing an array of outsiders into government, and getting his message across in all sorts of unusual and refreshing ways.

Fanfare for a simple man

That Mr Roh is a new sort of politician was evident during the campaign, which he won by a thin margin, with a sharp division along generational lines. He put himself across as a principled man for ordinary people, successfully labelling his opponent, Lee Hoi-chang, as an unprincipled defender of conservative elites. Mr Roh came from a modest background and passed the bar exam without going to university. He likes to compare himself with Abraham Lincoln, another self-educated lawyer with humble origins. Having built up a successful tax-law practice, Mr Roh gave it up along with his yacht-club membership and started to specialise in human-rights and labour law. Throughout the 1980s, he snapped at the heels of South Korea's authoritarian regime. By contrast, Mr Lee, 11 years older than Mr Roh and a member of the conservative Grand National Party (GNP), had got his law degree from Seoul's prestigious National University and had served as prime minister in the mid-1990s. Compared with Mr Roh, he was an establishment figure through and through.

While pitching for the presidency, Mr Roh used every prop he could lay his hands on to exploit these personal differences. He cradled a pig to promote a piggy-bank scheme for raising campaign funds from small donors. He played the guitar. He made well-publicised use of the internet, and cried on television. By comparison, Mr Lee seemed hopelessly stuffy and out of touch. On a visit to a farmers' market during the election campaign, he seemed unsure how to buy a cucumber.

But how good will the down-to-earth Mr Roh be at running South Korea? This survey will argue that the economic programme Mr Roh has launched is likely to be good for Korean capitalism in the long term,

making it more stable, more efficient, more popular and more capable of generating growth. The survey will be less sanguine about the long-term future of South Korea's alliance with America, but slightly more hopeful that the Roh and Bush administrations can agree on how to deal with North Korea over the next few weeks and months.

The country's underlying economic strengths are already impressive. It developed rapidly into an advanced industrial economy by cashing in on globalisation. It boasts a highly skilled, technologically savvy workforce. Successive reform drives—prompted first by its push to join the OECD in 1996, and then by Asia's economic collapse in 1997-98—have opened it up further still. More recent achievements include the slimming down of the *chaebol*, vast improvements in the banking system and the development of a bustling information-technology sector.

A number of systemic weaknesses, however, still hold the economy back. The overly rigid education system stresses rote learning over a more creative approach, which not only frustrates many young Koreans but also makes it harder for the country to shift towards new forms of knowledge-based growth. The labour market and the trade unions remain inflexible, and many well-educated workers are either underemployed or insecure in their jobs. The *chaebol* may have shaped up their operations but they remain unaccountable to outside shareholders, whom they often swindle by manipulating their subsidiaries' finances.

Some of these problems, especially those involving the *chaebol*, do not hinge so much on issues of right versus left or, in South Korean political parlance, progressive versus conservative, but rather on the country's approach towards the rule of law. Mr Roh has talked consistently about the need to make the application of the law more thorough and less arbitrary, especially for the rich and powerful. If he delivers on this pledge, South Korea's business sector—and investors' faith in it—should benefit. The shortcomings of the education system also appear to be in Mr Roh's sights. Improving South Korea's labour markets will be trickier, especially given the support Mr Roh has received from trade unions in the past.

Yankee go home, but not yet

The other long-term challenge facing South Korea is more daunting: maintaining its own—and by implication the region's—security. There are two threats here. The first is the clear, present and perennial danger posed by North Korea, which is once again openly toying with the idea of going nuclear. The second, partly related but in many ways distinct, stems from South Korea's steadily worsening relations with the United States.

Even if the North Korean threat recedes, the American alliance is likely to remain crucial for decades to come. East Asia lacks institutions such as the European Union or NATO through which China, Japan, Russia and the Koreas might work out a safe and stable co-existence. Historical mistrust among these countries will be difficult to overcome. Toss in China's and Russia's nuclear weapons, and the need to keep America around becomes even more apparent. That will become much harder, though, if the two Koreas ever resolve their mutual differences. Many young Koreans do not accept that South Korea, or a united Korea, would continue to benefit from an alliance with America. According to Lee Chung-min, a professor at Seoul's Yonsei University, “national sentiment is colliding head on with the national interest.”

Some of the South Korean hostility towards the United States reflects the current global wave of anti-Americanism, but a number of local factors exacerbate it. First, America's long-standing presence in South Korea, and its willingness to underwrite the country's security under the authoritarian regime of the past, has led many young Koreans to see the United States as part of a system they are railing against. Second, during the cold war the warnings about the northern menace became so intertwined with domestic repression that, once the authoritarian order receded, many in the South started to indulge in wishful thinking about the North and became reluctant to view it as a

potential attacker. Democratisation coincided with a renewed interest in traditional Korean values. Rather than attributing their new-found liberties to international pressure on the old regime, many young people looked to uniquely Korean explanations, in a process that an Australian history writer, Adrian Buzo, has labelled “the closing of the Korean mind”.

Third, there has been a dramatic shift in the nature of the stand-off with the North. The underpinnings of the conflict have shifted from the cold war to the war on terror. And many South Koreans view terrorism as America's problem, even if some of them hesitate to say so. So whereas the United States is alarmed by the prospect of North Korea selling weapons of mass destruction, many South Koreans would rather look the other way to avoid provoking their northern neighbour.

Since taking office, Mr Roh has publicly said that his country needs America as an ally. America, for its part, has been paying attention to his country's anti-American protests in recent months. But both countries will have to show much more willingness to compromise if they are to patch up their alliance. The new Korean president's popularity with young voters might help him to mediate between national sentiment and national interest if he wishes, but it will be a difficult balancing act. Meanwhile, he has plenty of things to worry about at home.

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A democratic riddle

Apr 17th 2003
From The Economist print edition

To devolve power, Mr Roh must first wield a big stick

AP

The new face of justice

KANG KUM-SIL represents a break with the past in several respects. As a woman, she has scored a first by becoming her country's justice minister. As a 46-year-old who has made it to ministerial rank in an age-conscious Confucian country, she has put the noses of many senior prosecutors out of joint. And as the then wife of someone who in 1988 was arrested for printing a translation of Karl Marx's “Das Kapital”, she provides living proof that South Korea's anti-communist paranoia has subsided. Her appointment seems to reflect well on Mr Roh's willingness to innovate. So why do critics continue to accuse him of conducting business as usual? Here are a few hints.

A week after taking office, Mr Roh prevailed on the head of the Fair Trade Commission to resign from his post six months early so that the president could give the job to someone of his choosing. When the national assembly ordered a special prosecutor to look into a secret $500m payment to North Korea from one of the big *chaebol*, Hyundai, made shortly before a summit in 2000 between Kim Dae-jung and Kim Jong Il, the North Korean leader, Mr Roh tried to convince the opposition to limit the scope of the inquiry. And when junior prosecutors complained about Ms Kang's efforts to influence promotions, Mr Roh gave them a wigging on television for questioning his minister's authority.

Like previous presidents, say the critics, Mr Roh still enjoys too much authority even as the country is liberalising. That power was unintentionally on display at the new president's inauguration, during which he stood at the podium alone, raised his right hand, and in effect administered the oath of office to himself. No supreme court judge, national assembly leader or other figure of authority stood with him to symbolise the separation of powers or any other checks on the president's authority. If the event had been a coronation, noted one observer, Mr Roh might have walked over to the crown, picked it up and placed it on his own head.

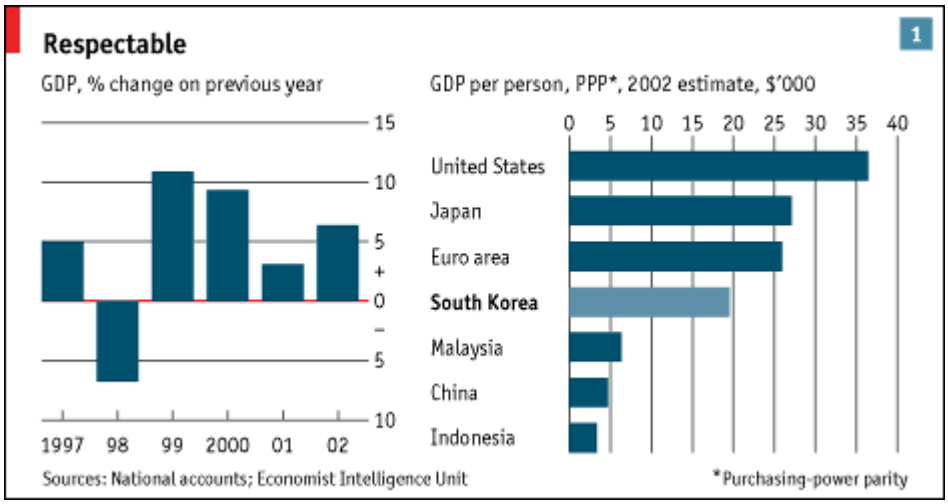
Bad habits

Not only are the restraints on presidents weak, but Korean leaders, big and small and in all walks of life, have traditionally had a strong tendency to discredit all that has gone before them. For example, when a new manager takes over an office, he will often bring in some of his own people to ensure loyalty, and will soon start questioning the decisions made by his predecessor. Korean presidents are no different. Even Kim Dae-jung, who until his election had been a perennial dissident, and those around him were seduced by the power a president is able to wield. Two of his sons engaged in corrupt practices during his term of office, and Hyundai made those payments to North Korea to allow his summit to go ahead. Nor did the way his government handled the media do him much credit. Soon after he took office, the three main conservative dailies, which unsurprisingly had been critical of the new president, were singled out for investigations into tax fraud.

This legacy presents Mr Roh with a paradox. There is no doubt that laws, rules and regulations are often ignored in South Korea, and that this gives too much power to those who can arbitrarily decide whom to punish. The new president's personal history suggests that he may well be sincere in wanting to change this state of affairs. Yet to do so Mr Roh must first shake up the bureaucracy—by using his singular powers as president, and by making decisions that will seem arbitrary to bureaucrats and other Koreans steeped in traditional ways. It will be hard to pull this off without at least appearing to persist with his predecessors' unseemly ways.

A similar debate has arisen over the new president's approach to the media. For example, he has banned the delivery of early newspaper editions to government offices, to stop officials from trying to “correct” the next day's news. He has also tried to loosen the cosy relations between journalists and bureaucrats and to strengthen the role of official spokesmen. But for his pains, he has been accused of inventing new ways of controlling the flow of information and of favouring media that support his government.

What compounds the uncertainty about Mr Roh's intentions is that he and most of his advisers have little political experience. Moreover, whatever the president's real priorities, he is under pressure to re-order them quickly, because his first year is likely to prove especially tough: the economy is sliding, North Korea is rattling its sabre, and the national assembly is controlled by the opposition Grand National Party at least until the next legislative elections in April 2004.



One way for Mr Roh to resolve his paradox will be to explain exactly how taking power from some people and giving it to others will make for a more equitable distribution. He must also lay out the principles that his appointees are meant to follow. Ms Kang, a fellow human-rights lawyer, seems to share Mr Roh's desire to make the administration of justice less arbitrary. For example, she says she is pleased by South Korea's falling arrest rate, and hopes to bring it down further by making sure that the authorities do not overstep their powers.

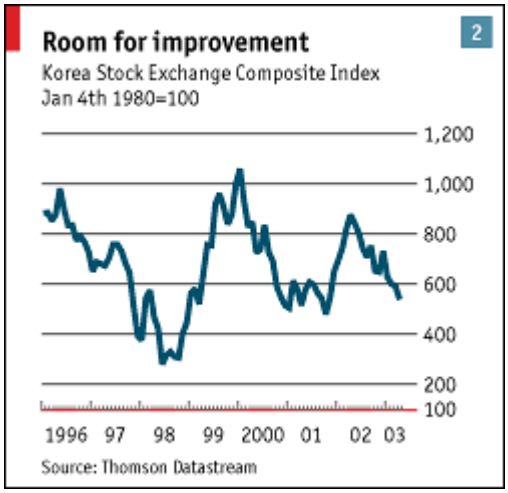
The arrests that people will pay most attention to will be those involving the rich and powerful. Mr Roh's early attempt to reach a compromise with the opposition on getting a special prosecutor to look into the Hyundai payments was therefore misguided. When prosecutors moved in on managers from the SK business group, Mr Roh may have been right to tell them not to rush into investigations of other *chaebol*, but he should have laid out the principles underlying these strictures more clearly. If he begins meddling in high-profile cases, his credibility in promoting the rule of law is likely to fade quickly.

Another early test of the president's mettle will be the way he handles labour issues. Some observers of Korean politics reckon that Mr Roh's twin interests in promoting the rule of law and loosening traditional hierarchies, together with his willingness to compromise where possible, will make him less of a leftist on economic policy than he may have appeared at first. One western diplomat even describes him as a centre-right pragmatist. Sanguine observers also point out that by making few commitments to special-interest groups during the campaign, he has left himself with considerable scope to reshape the country's political economy.

Perhaps. But after only narrowly winning the presidential election with a populist campaign, Mr Roh may find it hard to retake the assembly next year without relying on one of the few big and coherent interest groups that backed him: organised labour. And many others who voted for him last December are unhappy non-unionised workers who are holding insecure jobs or are over-qualified for the work they do. That is especially true of young people, many of whom hold advanced degrees and have had to settle for menial work. All this could turn labour policy into one of Mr Roh's biggest challenges.

The Korea Labour Institute, a government-funded agency, says that 26% of Korean employees are *bichongkyu*, or “atypical”, workers, using the OECD's definitions of part-time and temporary jobs. That figure is similar to the average for rich countries. But it does not include the unusually high number of employees who

work full-time on contracts longer than three months that are continually rolled over but offer little job security and few fringe benefits. Counting those workers, the KLI reckons, fewer than half of Korean employees have full-time jobs they can depend on. By shifting people away from permanent full-time contracts, big employers have made their labour forces more flexible and reduced their unit labour costs. Where productivity has fallen, they have made up for it by cutting wages slightly and non-wage benefits sharply.



The reason for much of the rise in the number of atypical workers is that the country's labour markets are inherently inflexible. When the economy collapsed in the Asian crisis, Kim Dae-jung tried to change that. He formed the Tripartite Commission to bring business and labour leaders together with government officials, and helped to win the unions' approval for lay-offs so that firms could reorganise and stay afloat. In the banking sector alone, 100,000 workers lost their jobs. But many companies are still reluctant to hire people on conventional terms. Unless the conditions can be made more attractive for them, many employers will simply continue to offer atypical contracts.

Mr Roh can improve matters if he chooses. His advisers have talked of extending the small social safety net created after the 1997 crisis, which would make it easier for workers to cope with being laid off. South Korea's finances are in a sound enough state to allow it to move in that direction. Ideally, this would be paired with new rules to make it easier to sack people. But if Mr Roh encounters opposition in the assembly, and if the economy continues to slide, he may feel he has to tack left to please labour groups ahead of next year's assembly elections.

This could happen in a number of ways. His government, with the backing of human-rights groups, is already planning to make it harder for firms to use illegal migrant workers, in exchange for promises that firms will be able to import more workers legally to hold down costs. With a few twists here and there, this might end up as a measure to keep foreign workers out. The safety-net idea, too, could prove counterproductive if it sets the wrong incentives and makes the labour market even more rigid.

Much will depend on whether the economy turns in a cheerier performance than gloom-mongers in Seoul have been predicting. Growth is expected to slow to 4-5% this year, from 6.3% in 2002. That is roughly the point, in an economy geared for rapid growth, at which Koreans start talking about a “growth recession”.

One reason economists fear a nasty slowdown is the popping of a mini-bubble in consumer credit, which might cause a sharp drop in consumption. On the whole, increased consumer lending has been a good thing for the economy, and has helped new sectors such as mobile-telecoms and broadband services to take off (see article). Precise figures are hard to come by because many small businesses use consumer loans as credit lines, but fewer than half of all loans now go to the corporate sector. This should eventually help the economy to become more balanced, but in the past year credit-card use has got out of hand. It now accounts for 20% of all loans, much of it for cash advances. Default rates have risen sharply, and small businesses are beginning to suffer the effects.

High oil prices have also been especially hard on a country that imports every drop of oil it consumes. And investment has been hit by a combination of the earlier economic slowdown, concerns about an inexperienced administration and North Korea's nuclear brinksmanship.

The economy, therefore, will present Mr Roh with a stiff test during his first year. As part of that test, he must continue reforms in an area that looms large in Korean business: the *chaebol*.

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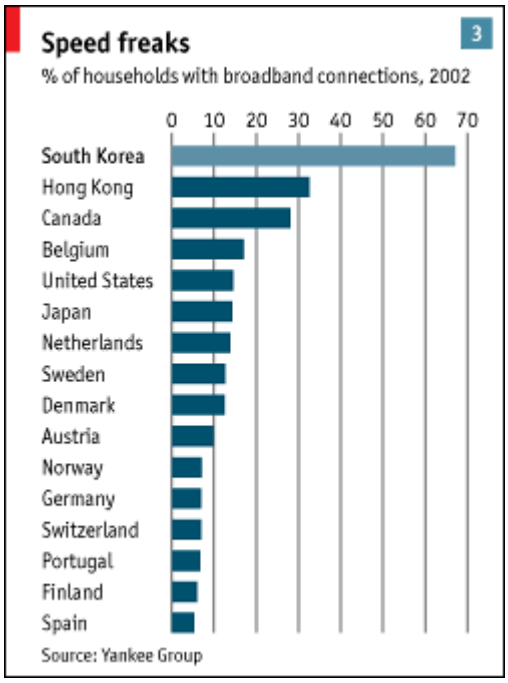
Seriously wired

Apr 17th 2003
From The Economist print edition

Broadband, broadband everywhere

IN SOUTH KOREA, only old-fashioned eccentrics still access the internet by dialling up with a modem. In a country where youngsters do not so much browse the internet as speed-read it, a fast and fat pipeline for all sorts of virtual content is on offer to anyone who wants it, and most people do. By 2002, reckons Morgan Stanley, an investment bank, 68% of the nation's households were subscribing to a broadband internet service, compared with an estimated 15% in America and 8% in western Europe.



A young and tech-hungry population has helped, as has the government's keenness to promote the internet. But the main reason why the country has been easy to wire is that most of its people are urban flat-dwellers. Mitchell Kim, Morgan Stanley's telecoms analyst in Seoul, points out that around 70% of Korean households live in urban areas, and that 45% of them live in apartment blocks. That has enabled Korean telecoms firms to offer broadband services to over 90% of households within a few years, a world record.

In many of those households, however, young Koreans still live with their parents, and would rather go out with friends than surf the net at home. If they get tired of watching short films and music videos on their mobile phones while they are out and about, they can always visit one of the ubiquitous PC gaming rooms, which offer a broadband service and a comfortable chair to sit and plug in.

Indeed, many booths have two computers and two seats. These “love seats” make it easy to get an internet fix without being anti-social. Young couples can sit together while they play games against online opponents or gossip in internet chatrooms. But as *Wired* magazine has put it, the typical love seat is “not so much a porch swing as an internet-mediated bar stool”. If a man takes a woman's fancy online, she is likely to ask where he is sitting, and if he is nearby she might saunter along and decide whether to sit down next to him.

Whether the user is at home, at work, in a broadband room or tapping away on a mobile-phone touchpad, the most popular online game these days is tearing down the political power structure. Internet news sites such as OhMyNews (which will take articles from anyone and post them after checking the facts) have changed the way Koreans process information. And a last-minute online push to get young voters to the polls is credited with tipping the balance for Mr Roh in last December's election. The trouble is that voters now have five years to wait for the next presidential poll. In hot-wired South Korea, that is a virtual eternity.

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Unfinished business

Apr 17th 2003
From The Economist print edition

Reform of the *chaebol* is only half-way there

SOUTH KOREA got top marks for dealing with the Asian financial crisis of 1997-98, way ahead of other countries in the region. By quickly overhauling its banking and corporate sectors, it brought its debt ratios and interest rates down to acceptable levels, encouraged huge inflows of foreign investment, and restored growth and confidence. It even started tackling the monolithic *chaebol.*

Yet even as Mr Roh took office, prosecutors and regulators took aim at the *chaebol*'s accounting and financial practices, starting with the arrest of ten senior managers from the SK group for overstating profits in the group's trading subsidiary by $1.2 billion. The Fair Trade Commission followed up by launching probes into Samsung and LG, as well as all three chunks of the former Hyundai empire, which after the death in 2001 of the founder, Chung Ju-yung, was divided up among his three sons. With the stockmarket already reeling for other reasons, these announcements have rattled investors, who have begun to wonder whether the economic reforms were really as impressive as they seemed.

Instead, they should be pleased that the authorities are now probing the *chaebol*'s financial dealings. If done thoughtfully, and in combination with other measures that Mr Roh and his team have pledged, this should lead on to the next stage of corporate reform. Whereas the first stage forced companies to change the way they think about debt, which had useful knock-on effects on their corporate strategies, the second stage should aim to achieve a similar conversion in their attitude towards shareholders.

The families that built the *chaebol* used their control over a wide range of firms to move capital and other resources around freely. The government helped by keeping control over the banks and pressing them to supply favoured business groups with capital—which South Korea, with its high growth and savings rates, was accumulating rapidly. The system allowed the *chaebol* to place huge bets in capital-intensive industries such as petrochemicals, steel, shipbuilding, cars and semiconductors without worrying too much about the risk. This enabled the country to build an industrial economy in short order.

But sooner or later, the system was bound to unravel. Once the *chaebol* had formed these political and financial connections, they found it easy to keep expanding by piling new debts on top of the old. By the time Thailand's currency collapsed in July 1997, Korean corporations were buried in debt, much of it short-term, that they could not reasonably hope to repay at a time when the neighbours were in deep trouble and exports were heading for collapse. The financial system began to come apart.

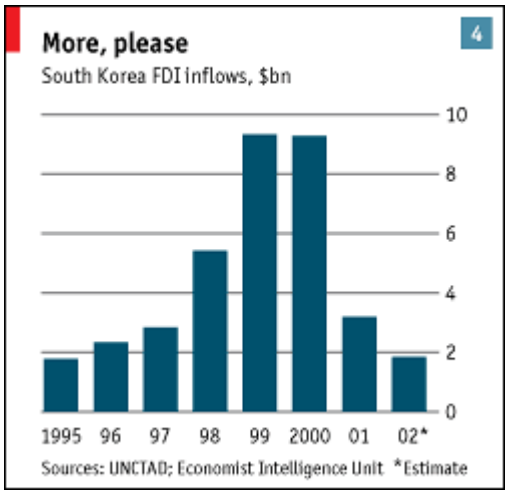
Round one

In early December 1997, shortly before Kim Dae-jung won the presidency, South Korea signed a deal with the IMF for $57 billion of assistance. The government quickly nationalised and overhauled many banks. It kept some, sold others off again and got the bankers to revamp their lending practices. One effect of this was to encourage new sectors to flourish: with the *chaebol* no longer dominating access to South Korea's huge pool of savings, credit began to flow to small- and medium-sized firms, as well as into credit cards and other consumer loans. The other main effect was to put pressure on the *chaebol* to shape up. Mr Kim's government also drew up new rules to force the *chaebol* to face their problems head on, unlike companies in, say, Thailand, Indonesia and Malaysia.

Regulators insisted that business groups reduce their debts to no more than twice their equity. They also barred fellow group members from buying shares in each other to boost their balance sheets, or from cross-guaranteeing each other's debts. The government-run Korea Asset Management Corporation took troubled loans off the banks' books and banged on the conglomerates' doors to collect the money. KAMCO has since attained rock-star status in the buttoned-down world of multilateral assistance, taking its act on the road to show other emerging economies how to deal with banking crises.

All this has dramatically changed the business landscape. Daewoo, which before the Asian financial crisis had been one of the top five *chaebol*, went bust, and its founder, Kim Woo-choong, fled to France. Another of the five, Hyundai, sold off its electronics business and divided the rest of its companies into three groups. Half of the top 30 *chaebol* in 1996 have gone bust and been broken up, and the others have narrowed their focus, reorganised and shored up their balance sheets.

In slimming down their empires, the conglomerates also encouraged a sharp increase in foreign direct investment—a big change from the years before the crisis, when South Korea had one of the lowest rates of inward FDI in Asia. Some of the restructuring deals—usually those involving the government or already bankrupt firms—made big headlines; for example, the government took a while to sell stakes in a couple of banks, and America's General Motors had to go through 18 months of talks and protests from Korean workers before sealing its purchase of Daewoo Motor last year.



But many other deals were struck quickly and quietly. The conglomerates' founders sold entire companies and gave up controlling stakes in others to slim their empires and pay debt. Moreover, although the *chaebol* had clearly overborrowed, they had managed to put at least some of those loans into research, product development and advanced equipment. That gave them an advantage over conglomerates elsewhere in Asia, which had wasted many of their borrowed billions on empty office blocks and golf courses. This, combined with a willingness to bite the bullet quickly, gave them a decent price for some of the corporate jewels they sold. It also allowed them to keep some technological gems.

Industrial strength

One example of a corporate transformation is the LG (formerly Lucky Goldstar) group, which is controlled by the Koo and Hur families. LG had struck joint ventures with foreign firms long before the 1997 crisis, for example teaming up with America's Caltex in 1967 in a deal that gave LG access to new technology and granted the foreign firm easy entry to South Korea's oil-refining sector. After the 1997 collapse LG increased the pace, creating several joint ventures to raise cash and concentrate its business. This included a deal with Philips, a Dutch electronics firm, which invested $1.6 billion in a 50-50 joint venture to make advanced liquid-crystal-display monitors. The LG group, which had been making these on its own, contributed much of the new venture's advanced technologies, in sharp contrast with the Caltex venture three decades earlier.

Similarly, Sweden's Volvo was impressed by the level of technology at Samsung's construction-equipment business, and bought the company for $572m in 1998. Samsung had been operating in this field since the 1970s. In the beginning it used strategic alliances with Japanese firms, which were attracted by South Korea's lower wages. Eventually those alliances no longer worked because Samsung became too much of a technological competitor to the Japanese, so Samsung began pushing ahead on its own. In the 1990s it developed a world-class line of excavation equipment. It invested heavily in hydraulics research, got better at using computers to predict how safely and consistently the machines would handle different tasks, and ploughed money into sophisticated machine tools with which to build them.

About the only thing Samsung did not do was to sell its excavators for a profit. Enter Volvo, which was itching to offer Samsung's advanced 12-model product line to its clients. Volvo left Samsung's technology largely intact, but took some time to refit the machines to make them more environmentally friendly and improve their ergonomics. It then began selling them through its global distribution channel, which included a network of skilled dealers with advanced diagnostic tools and an efficient supply chain for spare parts, so customers could be confident that any breakdowns would be fixed quickly.

If the remaining *chaebol* are to earn healthy profits from the businesses they have kept, they must do more than invest in R&D (though some of the research they are doing remains encouraging). With an eye to the Volvo-Samsung example, they must also learn how to handle global branding and marketing as well as their western counterparts do.

Another company in the Samsung group offers a good example of how this can work. Samsung Electronics was already leading its Korean competitors before 1997. After the crisis, it launched a concerted drive to boost its global brand, consolidating its fragmented and highly decentralised marketing outfits, made up of 49 subsidiaries and more than 20 local operators. It also put more money and management effort into product design to make gadgets that people would notice.

Leaner but not cleaner 5

South Korea's biggest *chaebol*, April 2002

	Main businesses	Assets trn won	Number of affiliates	Debt/equity ratio
Samsung	Electronics, machinery and heavy industries, chemicals and construction	72.4	63	240.6
LG	Clothing, supermarkets and radio, television and electronics stores	54.5	51	206.8
SK	Refining, distributing and transporting petroleum products. Production and sale of petrochemical products	46.8	62	156.4
Hyundai Motors	Manufacture and distribution of motor vehicles and parts	41.3	25	168.0
Hanjin	Construction and shipbuilding	21.6	21	294.4
Hyundai	Electronics, construction and finance	11.8	12	977.6

Source: OECD

Eric Kim, who handles the company's global branding, reckons that operating in a country with a young, technology-minded population has helped its design side. Samsung Electronics still earns most of its revenues from semiconductors and liquid-crystal displays, rather than the sort of hand-held devices for which firms such as Japan's Sony are known. But it is rising fast in these areas, and is already the world's third-biggest maker of mobile phones, behind Finland's Nokia and America's Motorola.

Samsung Electronics is only one of many Korean firms that have shifted towards design and marketing to improve their business prospects. Those firms' global advertising budgets have risen sharply, at a time when advertising spending in other countries is moribund. They have tried especially hard to strengthen their brands in mainland China, to which South Korean exports have risen by half in the past three years.

Get set for round two

Until recently, therefore, the *chaebol* seemed to be making swift progress. Now, however, investors are worrying that the Roh government's round of investigations might reveal those gains as illusory. In fact, the *chaebol*'s restructuring has been both real and effective. The reason they are coming under fire is not that they have failed to reform their businesses, but that their founding families continue to show disdain for the rule of law as well as for minority investors. If the economy is to reap lasting benefits from all that restructuring, the government must press ahead with further reforms in these areas.

Informed investors have long been aware of this, which is why shares in the *chaebol*'s publicly listed subsidiaries continued to trade at huge discounts to standard measures of business performance. The regulators have known it too. When the restructuring began, they required equity stakes in subsidiaries to be limited to no more than 25% of any group company's net assets, with some exceptions, such as foreign joint ventures. The government hoped that this, combined with the rule banning subsidiaries from taking equity stakes in parents, would prod the families in charge of the *chaebol* to treat all of the firms in their group as genuine sources of operating profit, so they would run them like real companies.

Instead, some *chaebol* have continued to shuffle the profits from some of their publicly listed firms, trying to keep any gains out of the reach of both investors and the taxman. Minority shareholders cannot stop them because the families still own controlling interests in many publicly traded firms, even though their direct equity stakes are small. According to Jang Ha-sung, a finance professor at Yonsei University in Seoul, in 2001 the top ten *chaebol* families on average owned only 4.3% of the shares in their group companies, down from 9.5% in 1997. But, reckons Mr Jang, they actually controlled 47.6% of the shares in those firms, by exploiting chains of subsidiaries to buy more shares in the parent firms.

Fortunately for South Korea, civic groups have been catching some of the *chaebol* at their tricks. The two main watchdogs are the People's Solidarity for Participatory Democracy and its offspring, the Centre for Good Corporate Governance (CGCG). They have filed complaints with prosecutors and with the Fair Trade

Commission against a range of companies, including Hyundai, LG and Samsung. Kim Joo-young, the CGCG's director (and a securities lawyer), says the complaint it filed against the SK group in December was not much different from those it had filed against others. He believes that the prosecutors were prodded into acting this time by criticism of their failure to act on earlier complaints.

The administration says it will do three things to make the *chaebol* clean up their act. First, it will close tax loopholes so that the owner-families cannot use dodgy business transactions to avoid gift and inheritance taxes. Second, it will allow small shareholders to launch lawsuits against firms that do deals against the minority's interests. And third, it will bar industrial companies from owning financial subsidiaries. The idea is to stop the companies from using life insurers, securities firms and investment trusts to favour shares in their own industrial firms.

This last one is a much bigger project than the other two. If Mr Roh wants to press ahead with it, he needs to do it pragmatically. The objective should be not to bash the *chaebol* but to subject them to greater scrutiny by informed and well-organised investors, as well as to protect the clients of financial-services firms.

Independent, and cleanly run, investment trusts and life insurers would have clearer incentives to earn returns commensurate with the risks they take. They would also be better able than dispersed shareholders to put pressure on poorly performing companies. Foreign investors, too, who now own 36% of the main stockmarket's equity by value, compared with 15% before the crisis, can play a useful role in this. And if there is to be a new social safety net, the pension managers must also do their bit.

Mr Roh says he wants openness, but does not want to move too fast to avoid upsetting the markets. Yet if done right, a second round of reforms would not only improve the prospects for South Korea's economy in the long run, it would also have the more immediate merit of reassuring jittery investors.

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Awkward allies

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From The Economist print edition

South Korea needs America, but increasingly wishes it didn't

MARCH 1st is normally a day for unity. It commemorates the huge demonstrations that Koreans held in 1919 to protest against Japanese colonial rule, which had run for nearly a decade and would last until 1945. This year in Seoul, however, South Koreans acknowledged the anniversary not with one rally but with two. In the first, a large group of mostly older demonstrators gathered outside Seoul's city hall to declare that America was heartily welcome in their country. Later that day, a smaller group of a few thousand, mostly students, insisted America wasn't.

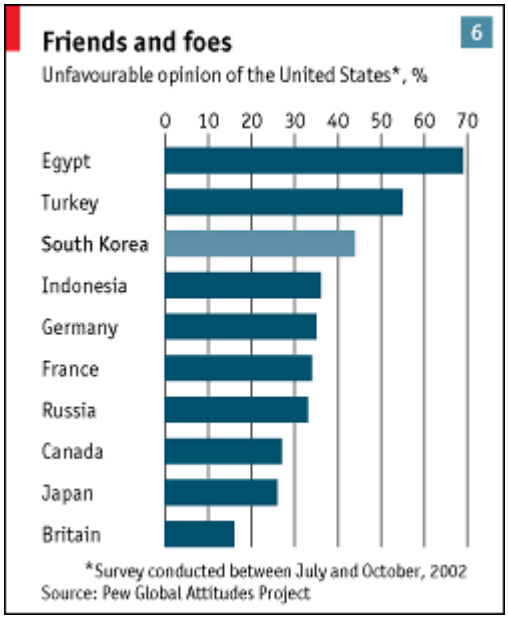
Older Koreans, having lived through the Korean War and its aftermath, tend to perceive the United States the way that most Americans like to see their own country: as a dependable friend and a defender of freedom. Most young Koreans, by contrast, talk about the superpower in the sort of unflattering terms that Americans also hear from many other places around the globe.

Few people outside South Korea were even aware of the locals' hostility to America until late last year, when large protests accompanied a military trial of two American soldiers who had accidentally struck and killed two Korean girls with their armoured car during a training exercise. Those protests probably helped Mr Roh, who had been critical of America's role in South Korea, to win the presidency.

Out of love

Is the current anti-American sentiment among young South Koreans deeper, more durable and different from that on display in other parts of the world? A survey of national attitudes in 42 countries, published by the Pew Research Center in December, provides some answers (see chart). It found that 44% of South Koreans looked unfavourably upon the United States, a much higher share than in France (34%), Germany (35%) or anywhere else in Europe or East Asia (note, however, that North Korea was not included). Among non-Muslim countries, only Argentina has a larger share of people who actively dislike America, and attitudes there have turned sharply against it only in the past two years as the economy has collapsed. In South Korea, moreover, negative attitudes towards America are especially concentrated among the young, so they may persist for a long time to come.

In January of this year, Georgetown University gathered experts on South Korea—mostly Korean and American academics—for a conference on what is causing the rift. Many of the participants have known each other for years and have conducted research together. Although they represent a wide range of views, most of the experts spoke in measured tones. Yet it is hard to avoid the conclusion that, as the post-conference summary put it, “South Korean anti-American sentiment is intense, real and contrary to the national interests of both countries.”



It also happens to be against the interests of Japan as well as, arguably, China and Russia, and probably anyone in East Asia who wants to go about their business peacefully. This is because the Korean-American alliance is a linchpin of security in the region, and is likely to remain so even if the two Koreas should one day resolve their differences. Without a network of American alliances, including Korea as well as Japan and Australia, mistrust among neighbours is likely to rise.

Clearly what happens in the North will affect relations between

America and the South. Besides the obvious good reasons for trying to lower military tensions, a long period of a gradual—and, of course, verifiable—reduction in the North Korean threat would create a better environment for America and South Korea to patch up relations. If they could agree on some long-term solutions now, and start taking steps in that direction to build trust, the two governments might find it easier to close ranks and deal with Kim Jong Il.

Why are South Koreans so hostile to the United States, and what can the two sides do about it? It soon becomes clear that young Koreans are not interested in separating out uniquely Korean grievances from broader ones they share with America's global critics; but apart from familiar complaints about American dominance and arrogance, what seems to upset them most are the sins, perceived or real, of America's armed forces. The United States' military presence in South Korea goes beyond the 37,000 troops that it has stationed there as a first line of defence. In a hilly country with dense population centres, there seems to be an American base in nearly every city and town. The sprawling headquarters in the Yongsan district of Seoul dominates the capital's landscape, drawing persistent complaints.

Far more importantly, though, the sole reason for the American military presence in the country has always been to convince North Korea that the South is perpetually ready for war. For half a century, American troops and commanders have gone about their mission with a persistence that is either inspiring or maddening, depending on your point of view.

Knights in shining armour

Americans think it is self-evident that they are making a huge sacrifice: how many countries would willingly put their own soldiers on a distant front line to show their solidarity with an ally? They are thus mystified that young South Koreans do not seem to appreciate their troops. Mr Roh was educated on this point shortly after getting elected. He had talked about his willingness to “mediate” between the United States and North Korea, implying that the South saw itself as a buffer between the two. Yet the Americans see their own forces standing between the North and South, at great risk to their lives, and found Mr Roh's geometry confusing.

The previous authoritarian regime constantly used the northern threat to justify repressive measures, so younger South Koreans tend to disbelieve any claims that the threat is real or imminent, especially if those claims come from the American government. Their own take on that threat is rather different. Their two biggest worries are, first, that America will prod the North into attacking by being overly aggressive, and second, that Kim Jong Il's regime will suddenly collapse and create chaos throughout the peninsula.

That said, most of the young do not actually want all the American troops to leave; they would simply rather not think about why they are there in the first place. South Korea's young men are not particularly happy about the draft in their own country either. Soon after Mr Roh took office, the government tried to cheer them up by announcing that it would knock two months off the 26-months of military service that all men must do.

As for nuclear weapons, only 30% of South Koreans in the Pew survey listed those among their main concerns, compared with 59% of Americans. Nor are South Koreans particularly worried about terrorism in general: only 15% named terrorism as a main concern, placing Koreans at the bottom of the world table. Most South Koreans believe that North Korea's nuclear weapons, if they were ever deployed, might be launched at Japan or America's west coast, or perhaps sold to another country or a terrorist network, but would never be used on the North's ethnic cousins just across the border.

They may be right: the North has so much artillery pointing at the South that it could easily flatten Seoul with conventional weapons. But it is still disturbing that young South Koreans should consider the prospect of a North Korean nuclear weapon launched at Sapporo or Seattle, or smuggled into Sydney, to be somebody else's problem.

The Americans have not always done as much as they could to soften the effects of their military presence. The two soldiers involved in last year's on-duty accident were acquitted in an American military court, which under a bilateral “status-of-forces” agreement is the proper place to try such cases, so there could have been no question of handing them over to the Korean civil courts. But the incident was handled badly all around, and the officers who approved the fatal exercises were never fully investigated.

Moreover, as South Korea becomes wealthier and more democratic, American mistakes are beginning to

grate more. In the decades after the Korean war, the bases were economic magnets, creating jobs and boosting local spending. Now, bases in some areas have become a blight on their increasingly wealthy communities.

America is trying to improve matters by using less space and returning land to the South Korean government. It is also encouraging local commanders to consult more with local officials, who have been gaining autonomy from the central government. The big Yongsan headquarters remains a sticking point. America says it is prepared to move, but the two governments have argued for years over who should foot the bill.

Other Korean complaints seem less reasonable. America's detractors have long clamoured for a revision of South Korea's status-of-forces agreement with the United States to make it more fair and “respectful”. Yet some aspects of the agreement show greater respect for the Korean justice system than does, say, America's agreement with neighbouring Japan. Moreover, South Korea has itself signed status-of-forces agreements with countries to which it has sent peacekeeping forces, and these contain similar protections for the Korean troops. Its agreement with Kyrgyzstan, for example, is by any measure far less “respectful”: it does not grant the host country jurisdiction over Korean soldiers even where they have been accused of serious off-duty crimes.

Like many disputes involving America's military presence, however, the status-of-forces tussle reflects contrasting views about which country is helping the other by having American soldiers in South Korea. As long as America is willing to underwrite the South's defence, and as long as it believes that it needs lots of bases and ground troops to do so, this fundamental difference will be hard to resolve. Meanwhile young Koreans can allow themselves the luxury of simultaneously enjoying American protection and being angry about the way it is being provided.

Fortunately, America's own assessment of the best way to protect South Korea appears to be changing. Donald Rumsfeld, America's defence secretary, has long sought ways to restructure his country's forces around the world, to make better use of air and naval power and to expose ground troops to less risk of sudden attack. In March, Mr Rumsfeld said the Pentagon had begun exploring ways to pull some forces out of South Korea and to set up an air and naval hub instead. Many defence experts believe that this can be done without increasing the danger to the South, and might even reduce it. Mr Roh has said that he is open to such ideas.

Reshaping the alliance

If both administrations are willing to be bold, this might offer a way to begin gradually reshaping the alliance. That may become necessary anyway: if the threat from the North should ever recede convincingly, the Chinese would immediately insist that America remove its forces from South Korea. Michael O'Hanlon, a defence expert at the Brookings Institution in Washington, DC, reckons that one way of preparing for such an eventuality is to move towards more mobile forces, which could also be used for regional peacekeeping and other exercises in co-operation with South Korean troops.

These ideas sound sensible, and it is just conceivable that the two allies will seize the opportunity to start repairing some of the damage. However, there remains a wide gulf between the world views of Washington's White House and Seoul's Blue House. For now, it will take all the diplomacy the allies can muster merely to close ranks in the current stand-off with North Korea.

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A bad neighbour

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In the cold war North Korea was a pawn. In the war on terror it is trying to checkmate the superpower

WHAT does North Korea want? It has been going all out to get America's attention since December. During a trip to Pyongyang a couple of months earlier James Kelly, America's assistant secretary of state for East Asia, presented North Korea with evidence showing that it was trying to enrich uranium. This flouted the Framework Agreement that North Korea signed in 1994 to shut down a nuclear weapons scheme involving a plutonium facility at Yongbyon, in exchange for fuel oil and a pair of light-water nuclear reactors (from which it is harder to extract weapons-grade material).

In response, the Korean Peninsula Energy Development Organisation (which includes Japan and South Korea, and had been charged with building the new reactors) cut off a fuel-oil shipment to North Korea. The government in Pyongyang refused to admit that it had been pursuing any new nuclear-weapons programmes, but implied that it will make such weapons quickly unless the American government negotiates with it. It then embarked on a series of risky provocations.

In December, it booted out inspectors from the International Atomic Energy Agency (IAEA). They had been at Yongbyon to watch over a mothballed reactor, plutonium-laden spent-fuel rods and a reprocessing laboratory. A couple of weeks later North Korea announced that it was quitting the Nuclear Non-Proliferation Treaty. The United States refused to respond bilaterally, but said that it was willing to talk within a multilateral framework about persuading North Korea to resume compliance with its commitments to stay non-nuclear. On February 12th, the IAEA took the first multilateral step when it referred the case to the United Nations Security Council. A week later, North Korea flew a MiG fighter into South Korean airspace. Shortly afterwards, on the eve of Roh Moo-hyun's inauguration, it launched a cruise missile into the Sea of Japan. In March it followed that up with an impressively reckless pre-rehearsed stunt, sending four fighters to intercept an American spy plane in international air space and trying to force it down.

All the while, America tried not to look surprised. It continued to say that North Korea can expect normal political and trading relations with the outside world only if it honours its previous agreements and credibly forswears any more nuclear games, and asked other countries around North-East Asia to affirm this line. Most of those countries, however, along with George Bush's domestic detractors, have criticised him for not putting a stop to North Korea's escalation tactics quickly by sitting down to bilateral talks.

Mr Bush's defenders and critics alike tend to bolster their arguments with claims about North Korea's motives. Some of the critics say that Mr Bush, by insisting on America's right to launch pre-emptive strikes against dangerous countries and identifying North Korea as part of an “axis of evil”, has simply frightened Kim Jong Il, the North's “Dear Leader”, who is now clinging to the nuclear option to protect his country from a hostile America. This line has a chronological flaw, because North Korea appears to have begun the uranium-enrichment scheme when Bill Clinton was still president. But whatever the order of events, say those critics, any threat of force will be counterproductive.

Other critics of Mr Bush stress that Mr Kim has sought better links to the outside world since the early 1990s, when the Soviet Union and China recognised South Korea, and that the North has been left diplomatically isolated since the end of the cold war. Mr Kim would need America's stamp of approval to change this. Moreover, the reasoning goes, a diplomatic victory would help Mr Kim in dealing with his military and party bosses after several embarrassing setbacks in the past year. Hence his insistence on bilateral talks, which would themselves constitute an important concession.

Reuters

Will the Dear Leader go nuclear?

Mr Bush's champions reply that North Korea has long engaged in brinkmanship as a way to extract concessions, and point out that the regime in Pyongyang needs the world's goodwill to keep the economy from collapsing. Nor is Mr Kim in a position to carry out his blackmail threats, they say, because by doing so he would trigger the annihilation of his regime. Instead of simply rewarding him for violating the 1994 agreement, this time the world should stand firm.

Who knows?

There may be some truth in all of these arguments. North Korea probably started the uranium-enrichment scheme because, as an isolated pariah state, it hoped for nuclear weapons as a deterrent if it ever needed them. But based on its experience with Mr Clinton, it may also have expected that if it got caught, it could trade the programme for concessions. However, all of this is speculation, because nobody really knows what goes on in Mr Kim's inner circle. “Even in the past, there were times when we did not understand them,” says a Russian diplomat, referring to the days when the Soviet Union maintained close ties to Pyongyang. “We understand them even less now.”

That uncertainty, argues Robert Galucci, the lead negotiator of the 1994 Framework Agreement for the Clinton administration, is the best reason for beginning talks with North Korea soon. Mr Galucci, who is now dean of the foreign service school at Georgetown University, says that when his team began negotiations in 1993, their original briefing notes, which listed inducements they were allowed to offer North Korea, said nothing about light-water reactors. Only after lengthy discussions did it become clear that such reactors would get North Korea to climb down (temporarily, as it turned out) from its nuclear ambitions. Sit down and talk to them again, Mr Galucci argues, and an unforeseen diplomatic solution might emerge.

The Bush administration sees it differently. It has certainly been busy with Iraq, but it has also waited because it felt that standing aloof was the best response to the uncertainty, both about North Korea's game plan and about how long surrounding countries will hold out against America's wishes. If North Korea really prizes the recognition bestowed by talks so highly, the argument goes, the administration should wait for a hint of concessions before handing out a reward. Meanwhile, in case the regime in Pyongyang really is driven by fear, American diplomats have been making soothing statements.

At the same time the Bush administration, seeing a fair chance that Mr Kim does have some form of blackmail in mind, has been trying to build multilateral support before sitting down to haggle. Mr Kelly in February talked about a “different kind of relationship”, which would involve “political and economic steps to improve the lives of the North Korean people”.

Yet without support from neighbouring countries, America's ability to present the government in Pyongyang with a credible set of choices will be limited. Japan got on board shortly after North Korea started raising the stakes, but China, Russia and South Korea have been less willing to put pressure on Mr Kim's regime. Both China and Russia said early on that they would oppose economic sanctions in the UN Security Council. Although China is now showing signs that it may get tougher on Mr Kim, it has

seemed less worried about his nuclear threat than that North Korea might collapse, which could bring millions of refugees streaming across its border. The message from all three countries, in a reverse echo of Ronald Reagan's 1987 statement at Berlin's Brandenburg Gate, has been: “Mr Bush, please don't try to tear down this wall.”

Under Kim Dae-jung, South Korea habitually lobbed money and cheery rhetoric over the wall in an effort to ease tensions. The defining moment of this “sunshine policy” was a summit between the northern and southern Kims in Pyongyang three years ago at which the two sides agreed to try some economic co-operation, arrange reunions for long-separated relatives and experiment with inter-Korean links in areas such as sport and tourism. Earlier this year Kim Dae-jung admitted that the meeting was facilitated by a payment of $500m to the Dear Leader from a company in the Hyundai group.

Outlook: cloudier

In the eyes of a large minority of sceptical South Koreans, the news of the Hyundai payment, together with Kim Jong Il's nuclear flirtations, has further discredited the sunshine policy. Mr Roh has said that he supports it in principle, but has tried to distance himself from its obvious shortcomings by renaming it and implying that he would attach strings, without quite saying how. In his inauguration address he set out a vision of North-East Asia in which the Korean peninsula would play a vital role in promoting regional “peace and co-prosperity”. He has also stressed that the North must start responding to the South's efforts with more “reciprocity”.

The nuclear issue presents Mr Roh with a serious dilemma. On the one hand, he has declared that it would be “intolerable” for North Korea to go nuclear, and said that it must change course if it wants better relations. On the other hand, he has also said repeatedly that dialogue is the only way forward with the North. He has not only denounced any hint of American air strikes to remove the nuclear-weapons facilities, but has also frowned heavily on talk of economic sanctions. The only consequence he seems willing to threaten is to leave things as they are.

No comparison 7

	Population m	GDP per person $ PPP	Military spending % of GDP	Annual electricity generation, bn kWh	Life expectancy years
South Korea	48.3	19,400	2.8	273.2	73
North Korea	22.2	1,000	31.3	33.4	61

Sources: CIA World Factbook, 2002; World Bank

Mr Roh's inexperienced foreign-policy advisers have sometimes made matters worse. When Yoon Young-kwan, Mr Roh's foreign minister, made a trip to Washington shortly before the president's inauguration, he seemed to suggest that nuclear weapons would be less of a worry for the new government in the South than a collapse in the North Korean regime. When his comments made the headlines, he said he had been misunderstood.

In an interview for this survey, he seemed keen to work with the United States, to find an approach that can both meet the South's concerns and get North Korea and America talking. “We understand the need to use both carrots and sticks,” he said, referring to economic aid and sanctions respectively. “We just wish that [the United States] would talk less about the sticks.” Mr Yoon also said that South Korea would join Japan and America in calling for multilateral talks. Officials from the Roh and Bush administrations have continued to meet quietly to lay the groundwork for a summit between their two presidents in Washington, DC, which the South hopes will lead to talks with the government in Pyongyang—be they bilateral, multilateral or some combination of the two that fits the bill.

Even if such talks were to be convened, however, what could the Americans say to Kim Jong Il? He has already publicly demanded a “non-aggression pact”, to guarantee his security as a price for not having nukes. The Bush administration does not want to make such a commitment to a regime that has shredded every agreement it ever signed.

Some would tell Mr Bush that he has no choice but to cut a deal and end the impasse. The threat of nuclear proliferation is too great, they argue; and a surgical strike to take out the nuclear facilities seems unthinkable. The North has an army of 1.1m, and its artillery could retaliate quickly by flattening Seoul. It might well conclude that by doing so it would be inviting its own destruction, but testing its resolve

would be a dangerous gamble.

A special case?

So should North Korea be treated as an exception? Those who argue for buying off Kim Jong Il seem to be hoping that other, less powerful, rogue regimes would not take this as a signal that bad behaviour pays. After all, few if any of the regimes that might try to obtain weapons of mass destruction, including Iraq, have North Korea's overwhelming ability to punish attempts at a military solution. Some advocates of compromise think America has no choice but to mollify Mr Kim. Yet Mr Bush seems highly unlikely to make an exception. In fact, Iraq, Iran and North Korea might be described as his “axis of non-exceptions”.

If the Bush administration cannot talk Mr Kim into taking the first step—by showing that the North will at least honour previous commitments—and if the administration is not willing to back down itself, Mr Bush will be left with a sickening choice. America can acquiesce, by allowing the North to go nuclear, and then rely on a missile-defence shield, intelligence, and perhaps a naval cordon to try to stop weapons shipments. Or it can chance a surgical strike, and hope that the North blinks. Choose the first, and a couple of million people could be killed by a launched or smuggled nuclear weapon, at a time and place nobody can foresee; choose the second, and either the problem is solved or a couple of million Koreans (as well as many thousands of American soldiers) get killed right away.

Checkmate? The only hope for avoiding this choice is for all of North Korea's neighbours to join America in a concerted diplomatic effort to convince Kim Jong Il to back down. If this sounds familiar, remember that North Korea is no Iraq. If China and Russia refuse to play their part, the results could be cataclysmic.

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The rewards of freedom

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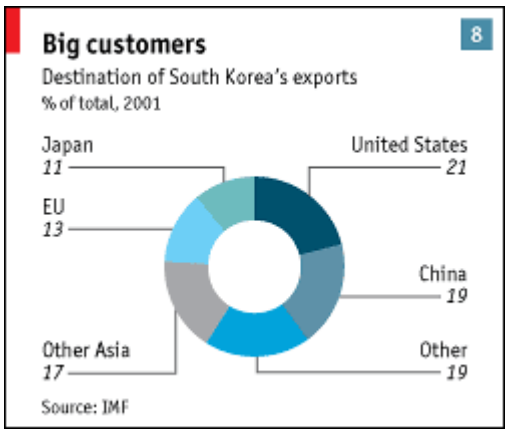
South Korea seems set to gain a bigger role in a dynamic region. But the North remains a huge risk



FOR a country that was separated from its kin, and grew up in protective custody, South Korea has come a long way. The first generation had to fight hard just to survive. Later generations studied hard and worked hard to build a better life. The economic results have been remarkable, and the world has noticed. South Korea's political achievements, although more recent and less heralded, are also impressive. After losing precious time to the Asian financial flu, the country has now recovered, passed its democratic exams, and is justly proud of itself. And yet, even as it grows richer and freer, it still longs for something more.

Part of that something may be respect. Among other things, South Korea would like a more prominent role in the region, which has so far eluded it. Throughout its history, it has been buffeted by bigger powers. For several decades after independence, it continued to live in the shadow of Japan, its richer and industrially more advanced neighbour and former colonial occupier. But now that shadow may be receding. Japan's economy has struggled for more than a decade, held back by its troubled banks and indebted firms. Whereas South Korea quickly solved its banking and corporate problems after 1997, Japan still cannot find the collective will to do likewise.

Japan is still bigger and richer, but relations have improved as South Korea has become more confident and Japan less so. The passage of time has also allowed historical hatred to fade a little, although on symbolic occasions South Koreans continue to protest. The release of an incomplete Japanese history textbook or a visit by Japan's prime minister to Tokyo's Yasukuni shrine (where 13 convicted war criminals are entombed) still triggers demonstrations. But young people on both sides have grown more interested in each other's music, films, food and culture, and last year the two countries successfully co-hosted soccer's World Cup.

Meanwhile, China, South Korea's biggest neighbour, is rising fast. Normally, when two countries trade, the rich get only a little richer and the poor get a lot richer. China as a whole is much poorer than South Korea, but the region on China's east coast is fairly wealthy, says Dominique Dwor-Frecaut, chief economist at Barclays Capital in Singapore. This should allow both countries to reap large benefits from trade, with each tapping into an increasingly affluent customer base next door.

Cheap Chinese imports should enable South Korean consumers to enjoy lower prices for many manufactured goods, and at the same time prod Korean firms to climb up the value-chain, improving their skills in marketing and building brands in the process. And like companies from other advanced economies, those Korean firms will continue to build new plants in China, and use the low-paid workers from the giant country's hinterland to cut costs.

Mr Roh is telling South Koreans that they will soon be living midway along a bustling thoroughfare that will carry money, goods and services back and forth across the world's most dynamic region. Even before he took office, bureaucrats and businessmen were hatching plans to turn South Korea into an important regional hub for logistics, international finance and information technology. Adding a note of caution, however, Lee Chung-min, of Yonsei University, points out that in population terms even a united Korean peninsula, with 70m people, would merely be the equivalent of another wealthy eastern province of China.

A piece of the action

It would be a help if Seoul could make itself a more attractive place for foreign businessmen, who rate it among the least pleasant of East Asia's big cities to live in. More fundamentally, however, South Korea's best bet is to continue liberalising and cleaning up its economy and establish itself as the most open and globally minded outpost in the region. It has made a good start. Politically, it has become an open and fairly tolerant liberal democracy, in sharp contrast with the repressive regimes to its north and west. Economically, it has shown much greater willingness than Japan to open up and to tackle obvious problems quickly and pragmatically. To move the country further in the right direction, Mr Roh must now carry out his promises to clean up the *chaebol* and improve the rule of law.

Paradoxically, however, if he succeeds in improving ties with North Korea, his efforts to promote openness could suffer. Any new economic links with the northern regime are bound to be highly politicised, says Marcus Noland of the Institute for International Economics in Washington, DC. The risk is that the *chaebol* will begin to manipulate ties with both governments to gain a piece of the action in the North. If Mr Noland is right, the scandal involving Hyundai's secret payment to North Korea in 2000 is merely a taste of things to come. Mr Roh must ensure that Hyundai's payment is thoroughly investigated, and he must avoid offering the North any other quiet business deals.

Nor should Mr Roh let his efforts to ease tensions with the North jeopardise his country's ties with America. Young Koreans are gripped by a range of emotions towards their protector: gratitude and admiration, up to a point, but also disappointment, resentment, suspicion and a desire to be heard and understood across the Pacific. The next few months will be especially difficult, and not just because of North Korea's antics. Mr Bush is surrounded by military advisers who are trained to be realistic and vigilant about potential threats. Mr Roh is surrounded by former outsiders who are at last getting a chance to govern, and may be too optimistic about what can be achieved.

Despite the differences, South Korea should make a bigger effort to be nice to the local patrolman. The two of them have a lot in common. And parts of the neighbourhood are still dark and dangerous.

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About sponsorship

SARS

A plague on all our businesses

Apr 17th 2003
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AP

Fear of the lethal virus is affecting firms everywhere

THE office lights burn later and the car parks are fuller in the evenings at Nike's headquarters in Portland, Oregon. The explanation lies half a world away. Since the outbreak of Severe Acute Respiratory Syndrome (SARS), the world's biggest sports-goods group has cut by over half its number of business trips to Asia, where some 300,000 people in four countries (China, Indonesia, Thailand and Vietnam) make more than four-fifths of its footwear. These days most of Nike's staff keep in touch with Asia by e-mail, the telephone or video conferencing. New shoe designs are no longer being brought back to head office from buying trips in Asia. Instead, they are displayed on computer-aided-design software, with samples sent back and forth across the Pacific via Fedex.

If the disease, which the World Health Organisation (WHO) believes could be the first severe new scourge of the 21st century with epidemic potential, is not brought under control in the next six to 12 months, Nike is ready to react much more drastically, says Vada Manager, its director of global issues. The company has already made contingency plans to shift production out of Asia, probably to Latin America. Though Nike says its has no quality or “substantial” absenteeism problems yet, it does not rule out a move should the epidemic spread.

One month after first hitting the headlines, the economic damage from SARS has spread well beyond airlines, hotels and conferences to virtually all businesses within the region, and many well beyond. It is now crimping communications, endangering supply lines and potentially depressing demand from consumers. For western firms in a range of industries—from clothing to toys to microchips—Asia is their centre of production. SARS threatens to reduce product quality, delay new ranges and, if production is forced to move, raise labour costs.

Unfair

The potential economic reach of SARS was demonstrated this week at the Canton Trade Fair, which opened in Guangzhou, near the original epicentre of the disease, on April 15th. Overshadowed by a WHO travel warning to avoid Hong Kong and the entire Guangdong province, the export fair, once the single most important event in China's economy, “is effectively dead,” say observers. In 2002, the fair drew more than 120,000 visitors, a fifth of them from outside China, from the textiles, toy, furniture and electronics industries. And they signed deals worth nearly $17 billion. This year, despite promises from

authorities to disinfect public spaces and restaurants, travel agents complain about the cancellation faxes piling up on their desks.

Inside Guangdong province, though, it is still business much as usual. John Rempel, the chief finance officer of Creative Master, which has a factory in Dongguan making toy replicas of cars and tanks, says that they have had no cases of absenteeism so far. Many factory workers in Guangdong are migrant labourers from other regions of China who spend their entire lives on the factory premises, which include dormitories and cafeterias. They don't mingle with the local population much. It is a self-imposed quarantine even in normal times.

However, the number of companies and the range of industries affected by the fear of SARS grows daily. Motorola, an American mobile-phone company, one of the biggest foreign investors in China, has restricted travel to affected areas, while Japan's Honda is evacuating families of its Japanese employees deemed to be at risk. Wal-Mart is banning all staff from visiting China, Hong Kong, Singapore, Vietnam and even Toronto, where cases have been reported. Suppliers, who are usually compelled to visit the group's Bentonville headquarters in person to peddle their wares, must now avoid its offices for ten days if they have travelled to these areas.

The extent of the potential damage can be gauged from the fact that more than one-third of American clothing imports now come from Asia. Some global companies may be able to procure supplies from elsewhere. But when a company like Gap, which is just regaining its credibility with customers, says it cannot send quality-assurance teams to check up on its contract manufacturers in Asia, there is a danger that shabby production may undermine its nascent recovery.

The most vulnerable sector, however, is probably technology. More than half of the world's silicon chips and 85% of its personal computers are assembled in Asia. Aberdeen, a Boston-based IT research firm, argues that original-equipment manufacturers must be ready with back-up sources of supply if SARS continues to spread, or else the global electronics industry could face a “nuclear winter”. This week Philips, a consumer-electronics group, said that SARS affected its sales in the first quarter.

Demanding concern

Some of this may sound hysterical if the disease quickly subsides. However, the greater danger is that demand in Asia will be damaged as well as supply. The region, led by China, has until now been the one area of robust growth in a stagnant world economy. So far, there is little reason to believe that Chinese consumers, or indeed those in countries like South Korea, are reining in spending.

Hong Kong, however, which is already suffering from deflation and a growing budget deficit, could be pushed back into recession. Other smaller markets, such as Singapore, are also vulnerable. Tourism alone accounts for 3-4% of Asian GDP. This week, Stephen Roach, chief economist at Morgan Stanley, argued that SARS would cut growth in Asia, excluding Japan, from 5% to 4.5% in 2003.

Some businesses are already beginning to notice a fall in demand. It is not only the foreign tourists coming to Asia that are being missed. Walt Disney says that a decline in Asian visitors could shave admissions at its theme parks in America. The computer and semiconductor industries sell about one-third of their output in Asia; luxury-goods companies, 13% of theirs.

J.P. Morgan, a bank, says that European companies such as Burberry, Gucci, Hermes, LVMH and Richemont are particularly exposed. Announcing its second-half results on April 15th, Burberry, a British label, said fears about SARS had led to a sharp fall in sales in the last two weeks of March in Hong Kong. Some insurers are also affected: Britain's Prudential earns 30% of its sales in Asia, mostly via door-to-door calls that are now harder to make.

There is no risk, of course, without opportunity. SUNDAY Communications, a Hong Kong mobile-phone provider, has recently launched a subscription service that warns customers of nearby buildings that house sick residents. And sales of *kimchi*, a Korean dish of pickled cabbage and garlic, are rising because of rumours that it prevents infection: South Korea has so far not had a single confirmed case of the disease. In Beijing, turnips, dead silkworms and cicada skins are now in high demand for the same reason. Sadly, it will take more than turnips to persuade businessmen to travel again to China.

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Public office and private interest

The suits inside the battledress

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Is collusion between government and big business increasing in America?

REVELATIONS of the links between government and the private sector have been flowing thick and fast in America. First came the disclosure that Richard Perle, the hawkish chairman of a defence-department advisory group, had taken money to represent Global Crossing, a bust telecoms firm that is seeking the Pentagon's approval to sell itself to a firm controlled by Chinese investors. Next came the discovery that nine of this advisory group's 30 members (including Mr Perle) had business relationships with defence contractors. These firms, reports the Centre for Public Integrity, a watchdog group, won contracts worth more than $76 billion in 2001 and 2002.

Mr Perle promptly resigned, protesting his innocence. (He remains a member of the advisory group, however.) But by now America's newshounds had their noses pressed to all sorts of leads. George Shultz, a secretary of state under Ronald Reagan and another foreign-policy hawk, was discovered to be a board director at Bechtel, a civil-engineering firm that is reported to be bidding for a government contract to rebuild Iraq. Jack Sheehan, a retired general who belongs to Mr Perle's group, also drew a salary at Bechtel.

This shadowy web of private interests inside government has been familiar to Americans ever since Dwight Eisenhower talked, in his farewell speech as president in 1961, of a rising “military-industrial complex”. Yet recently this tangle of public and private interests has given the appearance of getting thicker—and not just in the defence industry. Seeking to protect its friends in the energy business, the government of President George Bush stands accused of impeding the investigation into allegations of price manipulation during California's energy crisis of 2000-01. And Iraq has been conquered, claim the government's opponents, so that President Bush's Texan buddies can carve up its oil reserves.

The Economist asked The Corporate Library, a watchdog group, to search its database of 23,000 directors of large, publicly held companies for retired politicians, bureaucrats, ambassadors, public prosecutors and military officers. The search returned 405 directorships, concentrated in a handful of industries: finance and insurance (64 directorships); energy and utilities (53); telecoms and software (39); healthcare and pharmaceuticals (26); and defence (22). The directors included 82 former members of the senate and house of representatives, 54 former overseas ambassadors, 52 retired senior government bureaucrats, 38 one-time generals and admirals, 32 cabinet secretaries, 25 state governors, four vice presidents and one president (Gerald Ford, who sits on Citibank's board).

The retired ambassadors tend to get jobs at firms from countries where they served. For instance, Joe Rodgers, a former ambassador to France, sits on the board of the American subsidiary of Lafarge, a French cement maker. The ex-bureaucrats and cabinet secretaries tend to land jobs at firms that fell under the authority of their former departments. Thus John Block, agriculture secretary under Ronald Reagan, sits on the board of Deere & Co, which makes agricultural equipment.

This pattern is especially visible in the defence industry, whose boards are packed with retired generals, admirals and former Pentagon bureaucrats. On the eight-member board of Alliant Techsystems, an aerospace and defence firm spun off from Honeywell, sit five retired officers or government bureaucrats. These include men such as David Jeremiah, a well-connected retired admiral who also sits on Mr Perle's advisory group.

Some of these men and women actively market themselves as gatekeepers to the centres of power in Washington, DC. Besides collecting directorships, William Cohen, Bill Clinton's former defence secretary, has set up The Cohen Group, a consultancy whose website boasts that “mastering the complex and often veiled dynamic where government, politics, media and business intersect requires a rare combination of

knowledge, skills and experience." Then there is the Carlyle Group, a leveraged-buyout firm that specialises in collecting former presidents, prime ministers and government bureaucrats on its payroll.

Two dangers arise from this web of connections. The first is that private, commercial interests capture public policy. America tackles this problem by dividing its officials into regular and "special" government employees. The regular employees face restrictions on post-retirement work in the private sector that depend, in part, on what they did before they left government. These range from one-year "cooling-off" periods to lifetime bans, under certain circumstances.

The members of Mr Perle's advisory group are special government employees—part-timers who tend, often in ways that the government desires, to work in the private sector as well. Special employees operate under more permissive rules. Members of advisory committees, for instance, may continue to involve themselves in matters that have a direct effect on their own financial interests if the government judges that the need for their services "outweighs the potential for a conflict of interest posed by the financial interest involved", according to the Office of Government Ethics.

The second, less obvious, danger is that the ex-politicians, bureaucrats, admirals and generals fail to do a proper job as board directors, which is to ensure that management acts in the interest of shareholders. Charles Elson of the University of Delaware's centre for corporate governance suggests that the bigger problem may be that some of these directors were hired because of their government connections. This could give them a relationship with management that may affect their ability to act independently. If companies want this service, "they should hire these people as lobbyists, or consultants," says Mr Elson.

For all the recent fuss about corporate-governance reform in America, this potential problem has attracted scant attention. The New York Stock Exchange, for instance, made no mention of it in the otherwise exhaustive governance rules and recommendations that it published last summer. This has left companies to set their own policies. Officials at DRS Technologies say that they have four ex-military board directors because these people have a good understanding of an industry that is "unique in terms of doing business with the government". As a strict rule, says DRS, board members may not drum up business for the company. So that's all right, then.

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Hewlett-Packard

A good deal after all?

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Signs that the merger with Compaq is going well

Get article background

IS LAST year's controversial (and protracted) $19 billion acquisition of Compaq by Hewlett-Packard (HP), a rival computer maker, going to prove its many critics wrong? One benefit of the deal, argued Carly Fiorina, HP's boss, was that the resulting firm would be big enough to take on IBM in the lucrative computer-services market. And hey presto, on April 11th, HP announced that it had beaten IBM to win a $3 billion services contract, its largest ever, from Procter & Gamble (P&G). This is but the latest of several signs to suggest that the merger might be working.

HP's post-merger cost-cutting is, for example, also going better than expected. Originally, Ms Fiorina promised cuts of $2.5 billion by October 2003, but the figure is now expected to be closer to $3 billion. As well as laying off around 17,000 employees, the company has benefited from its improved bargaining power with suppliers. Figures from IDC, a market-research firm, show that HP overtook Dell to take the lead in the price-sensitive PC business in the final three months of last year. HP's PC division has recently returned to profit, and Dell has taken a leaf out of HP's book by entering the printer business.

In the past few days, in addition to the P&G deal, HP has also signed a $600m services contract with the Bank of Ireland, and another agreement, thought to be worth around $1 billion, with Ericsson. In short, HP seems to be doing what critics of the merger claimed was impossible: taking on Dell in the PC business on the one hand, and IBM in the services business on the other.

But this does not prove that the merger was a good idea—at least not yet. Steve Milunovich, an analyst at Merrill Lynch, notes that, compared with IBM, HP is relatively inexperienced at negotiating large service contracts. Winning high-profile contracts is not the same as making money on them, and the P&G deal may not prove as profitable as HP expects it to be. IBM has a decade of experience in performing stringent reviews of such contracts, says Mr Milunovich, making it less likely that it will be caught out by unexpected costs. This week, Merrill duly downgraded HP's shares. Other sceptics observe that, whereas HP's PC division has returned to profit, its server division is still making losses, and its printing and imaging division accounts for most of its profits.

Even so, HP's acquisition of Compaq has not been the disaster that some opponents predicted. Ironically, the opposition to it encouraged the two firms to plan their integration in unusual detail, and the merger is already being held up as an example for others to follow: it was studied by White House officials who went to HP executives for advice on the formation of the Department of Homeland Security. Labelling the deal a textbook success is a little premature. But so is writing it off as a dud.

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AOL Time Warner

Reeling like a bad movie

Apr 17th 2003
From The Economist print edition

The growing pressure to break it up

Get article background

GIRDER by girder, stone by stone, the 55-storey granite and plate-glass building that will be the new headquarters for AOL Time Warner is rising on New York's Columbus Circle. Yet the erection of this massive complex, which will also house a hotel, penthouses, a shopping mall and a studio for CNN, the group's news network, carries a dreadful symbolism. Just as the new building for the media conglomerate is coming together, there is a sense that the company itself may be falling apart.

The pressure for the break-up comes from AOL Time Warner's heavy debt. At the end of 2002, it stood at $27.5 billion, and could have reached $31.2 billion in the first quarter of 2003, according to Morgan Stanley. Richard Parsons, the company's boss, has promised to hack it back to $20 billion by the end of 2004, and to reduce the ratio of debt to earnings by the end of this year. But the credit-rating agencies are watching like hawks.

To ease the debt burden, some AOL Time Warner assets will go under the hammer, notably its Atlanta sports teams and Time Warner's book publishing. Warner Music's manufacturing business, its music-publishing division and the group's 50% stake in Comedy Central, a cable channel, could also be up for sale. In all, Mr Parsons hopes to raise $2 billion-4 billion from off-loading such “non-core” stuff. He has also promised to make an initial public offering of shares in Time Warner Cable by the end of June, which could raise another $2 billion. And he is relying on the crucial $3 billion or so of cash that the group should generate this year.

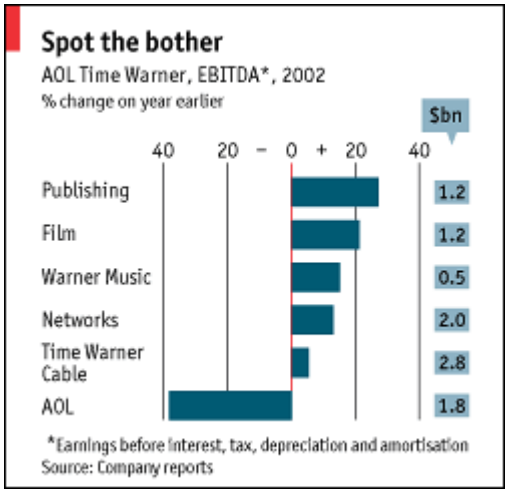
If all of these elements fall into place, Mr Parsons will be safe. The trouble is that none of them looks straightforward. Already, for instance, WHSmith, a British bookseller, has withdrawn from the bidding for the book publishing business. More troubling, the uncertain equity market makes the planned IPO look extremely tricky. AOL Time Warner insists that it will still go ahead, but that the offering might not happen until “late summer”.

This could make matters deeply uncomfortable over the next six months. The group has just had to make a number of hefty cash payments, including $2.1 billion to Comcast, a cable giant, for its interest in Time Warner Entertainment, which houses assets such as Warner Brothers and HBO, a premium cable channel; and $812m to Vivendi, a French media group, for a stake in AOL Europe. As one fearful insider puts it: “If the cable IPO doesn't work, he [Mr Parsons] will have to look at selling not just our non-core assets but core ones like music, film or even HBO.”

Even then, however, there are no easy solutions. The fact that Vivendi, despite its own debt pressures, has so far held on to its Universal Studios and Music points to the difficulty in securing attractive offers for such assets right now, and Mr Parsons insists that he will not get into “fire-sale mode”. There have been talks with other music groups, such as EMI, a big independent record company, but it is in no position to pay cash. Mutterings by Viacom, a rival media giant, that it is eyeing assets not listed for sale—such as CNN or even the whole group—are dismissed by those close to Sumner Redstone, its boss, as “highly speculative” in the short run.

Which leads, as all roads tend to, back to AOL. The source of the merger—announced in 2000 and the biggest ever in the media industry—it is now the source of all problems. It is the only operating division whose profit contribution shrank in 2002 (see chart), and it has been hard to integrate its geekish internet

culture, far removed from the Time Warner tradition. Despite repeated efforts to use premium Time Warner content to drive subscriptions, the link with the entertainment assets has proved of little value. As Peter Kreisky, a media consultant, puts it: “There is no convincing evidence that Time Warner needs AOL from a strategic point of view.”



Ever since Mr Parsons took over nearly a year ago, he has promised to fix the battered internet business. He installed new bosses and purged the place of old-timers close to Steve Case, AOL's founder, whose resignation as chairman of the group takes effect next month. And he has backed a rescue plan which, belatedly, pushes broadband and tries to extract more money from AOL subscribers rather than just to boost subscriptions. Yet, even so, operating profit at AOL is expected to fall from nearly $1.4 billion in 2002 to under $800m in 2003, according to Morgan Stanley.

If the persistent underlying source of trouble at AOL Time Warner is AOL, what is the point in keeping it? Off-loading it would be cheered to the rooftops at the old Time Warner businesses, many of which have had a cracking time recently, including HBO (“The Sopranos”), Warner Brothers (“Harry Potter”) and New Line Cinema (“The Lord of the Rings”). Despite the efforts by Mr Parsons to mend relations poisoned by the aggressive AOL upstarts in early post-merger times, there is still “a lot of bitter feeling about what Case did”, as one Time Warner executive puts it.

Yet dumping AOL would not be simple. The market currently considers the division almost worthless. There are few credible buyers, and there are inquiries pending by both the Securities and Exchange Commission and the Justice Department, as well as dozens of shareholder class-action lawsuits. Only this week, two institutional shareholders filed a suit against the company, accusing Mr Case and other bosses of “tricks, contrivances and bogus transactions” to inflate the share price both before and after the merger. For now, the group insists that it will hold on to AOL while it revives it. But, if other plans flop, this could become untenable.

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Toy franchises

A challenge to Barbie

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Can a Disney Princess topple the queen of Toyland?

THE reign of Barbie, 44 years young and still the world's favourite doll, is under threat. The pretender to the throne? None other than Disney, which has created a franchise designed for girls aged three to seven—Barbie's core audience—known as the "Disney Princess". For the moment, the "princesses" are a cast of well-worn Disney characters from Snow White to Sleeping Beauty. Last month, Michael Eisner, Disney's boss, spoke of the "untapped opportunity" to recast such characters as a series of toys, starting with 12-inch Barbie-sized plastic dolls and ranging—as Barbie does—into all the paraphernalia, such as pyjamas, wrapping paper, magazines and videos.

Recast as durable revenue streams

Disney's definition of a princess is elastic. A mermaid, Ariel, is included, and there was a weighty strategic debate over whether also to count Tinkerbell, a fairy. (In the end, she slipped in as a "secondary" princess.) The point of casting these characters as princesses, explains Cindy Rose, head of Walt Disney in Britain, where the range has gone down well, is to "captivate, inspire and transport young girls into a fantasy world".

So far it seems to be working. From worldwide revenues of just $136m in 2001, when the brand was launched, global sales shot up last year to $700m. Andy Mooney, head of Disney Consumer Products, says he expects sales to reach $1.3 billion in 2003. Over 4m Princess dolls are now being sold yearly, and the brand has begun to move Disney's Consumer Products division away from its reliance on Mickey Mouse and Winnie the Pooh. Between them, the two septuagenarians represented some 80% of the division's revenues in 2000.

Disney Princess touches a key strategic issue for entertainment companies: how to create lasting, classic characters at a time when film-promoted toys result in mere fleeting spikes in sales. The recent rash of franchise films, from Sony's "Spider-Man" to Warner Brothers' "Scooby-Doo", reveals both the potential for tie-in merchandising and also its often transitory nature. With the Princess franchise, Disney hopes to create a more durable and smoother revenue stream.

Naturally, though, Barbie's territory is fiercely competitive. Disney packages its princesses in pink—a colour that Mattel, Barbie's manufacturer, claims as its own. While both Disney and Mattel say they encourage young girls' fantasy play, Disney is mindful of the fashion-conscious Barbie's critics. Disney Princess, it stresses, is about tiaras and wands, not handbags and high heels. Says Disney's Ms Rose: "It's about girls wanting to be little girls, rather than encouraging them to grow up fast." Barbie must be quaking in her stilettos.

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IT in Japan

Watching the world scroll by

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Oddly, Japanese firms have been slow to latch on to information technology

ONE of the handier features on Japanese mobile phones is a web link that takes the guesswork out of a night on the town. Just punch in where you are and where you live, and it will work out your train connections and tell you when to catch the last one home. Considering how easily these web-enabled telephones have spread, and the fondness that the Japanese have for technology in general, it is surprising that information technology has left many Japanese businesses standing. While Japan's young consumers have grown increasingly wired, most of its companies have missed the connection.

To see just how far they have been left behind, start with a peek inside the executive suite. Whereas mobile-toting youngsters will punch out e-mails while walking down the street, many senior Japanese managers do not handle their own e-mail. An assistant simply prints them out for the boss, who will eventually dictate a response. A tour of the business-class lounges at Narita airport, says Joichi Ito, an internet entrepreneur, reveals how senior managers feel about information technology: “In United's lounge everyone has their laptop out; in the Japan Airlines lounge they are all drinking beer.”

As you move down the chain of command, it does not get much better. Consider the sequential approval process that Japanese firms use to build consensus. They often prefer to stick with a paper document, which gets passed around to everyone in the loop so that each can show his approval by affixing a *hanko*, the personal ink stamps that the Japanese use as signatures. The technology to attach a *hanko* electronically to computer documents exists. Whether it is the technology or the prospect of faster decisions that deters them, however, many firms persistently prefer paper.

What about the people who implement those decisions after they have been made? In a country packed with electronics firms, Japanese workers of course have lots of computers on their desks. But many of these are still connected to old mainframes, run outdated software, and provide only inconvenient—if any—access to the internet. Those who need to surf the web regularly might find better internet-enabled PCs elsewhere in the office.

In some hopeless companies, rebel bands of fed-up employees are now getting together to sneak IT into their workplaces. One publicly traded firm, Cybozu Inc, does a thriving business selling “groupware” to them. For the equivalent of a few hundred dollars, they purchase Cybozu's suite of office software, punch through their company's computer-security firewall (not a difficult task in Japan), and bypass the officially approved IT systems to enjoy the illicit pleasures of computer-enhanced productivity.

Obviously, in an economy as big and diverse as Japan's, not all companies are making such dreadful use of IT. The firms that export cars and electronics tend to be much more savvy, partly because they face more competition and partly because they must deal with companies all over the world. Those who receive an e-mail from Sony's boss, Nobuyuki Idei, can be pretty sure that he sent it himself.

Yet companies in a wide range of sectors, from banking to retailing to parts of manufacturing, have failed to exploit IT fully. That is partly because, overall, Japanese firms invested far less than their counterparts in hardware and software during the 1990s. And although Japanese IT spending jumped in 2001, from 3.9% of GDP to 4.4%, a big gap remains. The European Union spends 5.2% of GDP a year; America spends 5.3%. The point of investing in IT, of course, is not merely to spend, but to do so in a way that cuts costs or boosts revenues. Yet not only have Japanese firms spent less money on IT, they have also spent less prudently, by ploughing a bigger share of their IT budgets into outdated systems.

Masaharu Miyachi, an analyst at Morgan Stanley, says that Japanese companies continued to pour money into mainframe-based systems until well into the late 1990s. Western firms had begun shifting much

earlier towards simpler server-based systems and packaged software. As a result, Japanese firms are still saddled with “legacy” software that limits their options, is hard to maintain, and will take time and money to replace.

One reason why Japan has lagged is clear: with economic growth nearly flat in the 1990s, capital investment of all kinds, including IT, has made less sense than in, say, booming America. Economic hardship may partly be driving Japan's poor mix of spending as well, by prompting firms to channel what few investments they do make into short-term solutions.

Still, Japan's neglect of IT can hardly be blamed solely on the economy. It also stems from far deeper problems in the way that its companies are run. One is that they are far too loyal to the vendors that supply them with software services. At times, this leads to spectacular failure. When three big Japanese banks merged last year to form Mizuho, each of their three existing software vendors contributed to their new IT systems. Combined with in-fighting among the banks themselves, the result was chaos. On the official launch date, cash machines did not work and automated debits (such as payments to utilities) went unpaid. It took months to sort out the mess.

Japan's neglect of IT also stems from far deeper problems in the way that its companies are run

Performance varies, even within the same sector. In retailing, for example, convenience stores such as Seven-Eleven, Family Mart and Lawsons boast far better systems than Japan's department stores, and have become much leaner as a result. Companies that want to get an edge on competitors are turning to e-commerce firms such as Alpha Purchase to help them whittle down suppliers and save money. One of Alpha Purchase's initial investors was an American private-equity firm, Ripplewood, which has taken over a bank, a resort and other troubled businesses in Japan. In the process it has seen just how easy it is to improve existing IT systems.

If Japanese managers' loyalty to their suppliers has restrained productivity gains, so too has their loyalty to their own employees. Japanese firms have been especially slow to outsource routine computer functions to specialists. Mr Miyachi points out that, although this is changing, the outsourcing that does occur tends to have a Japanese flavour. To spare their employees from redundancy, Japanese companies that do outsource prefer to form a new 50-50 joint venture with the IT specialist. IBM Japan has done several such deals with car firms, steelmakers, airlines, insurers and others.

Although more and more Japanese firms are now asking software consultancies to help solve their problems, they are still hoping to reap the benefits of computers without overhauling outdated practices. When American and European firms have tried this approach, it has usually ended in disaster.

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Japanese corporate restructuring

After you, please. No. After you.

Apr 17th 2003 | TOKYO
From The Economist print edition

Who will be the IRC's first patient?

Get article background

PICKING the first case for Japan's Industrial Revitalisation Corporation (IRC) is a delicate task. The government body, which was launched on April 16th, has the job of restructuring ailing companies after buying their non-performing loans from equally distressed banks. In theory, most of its framework is in place. It has money: the IRC can raise up to ¥10 trillion ($83 billion) using a government guarantee. And it has two years to choose companies it wants to save, and three years to turn each one round. Although staffing is still a problem—the IRC has fewer than 100 employees so far and is desperately searching for more—its top staff do have experience in corporate restructuring.

But the difficult part is yet to come. The choice of company to be first under the IRC's scalpel is important because it will set the tone for future cases. The IRC is reluctant to accept companies in overcrowded industries—such as construction and retail, which represent the worst of corporate Japan. If it is forced to take them on (say, by political pressure), companies that are actually worth saving will not want to go to it for fear of being tarred with the same brush.

Potential candidates already seem to be scrambling to avoid its clutches, largely because they are not sure what will happen to them once they are there. Take Seibu Department Stores, which has been touted as the most likely inaugural case. With the help of creditor banks, the struggling department-store chain has hurriedly patched together a dubious restructuring plan that involves merging with Sogo, a chain that went bust in 2000; large debt waivers; and, say analysts, not nearly enough closures of its own stores.

The IRC is more interested in struggling manufacturers with good core businesses. Eager to secure exit strategies for its investments, it has been asking foreign and domestic private-equity funds what sorts of companies they would be interested in. That may be why Fujitsu, the largest computer maker, has recently become the focus of media speculation as a potential candidate. Other names cropping up include NEC, another high-tech firm, and Kanebo, a cosmetics company.

There is a good reason, however, why these companies are unlikely to end up in the first batch of cases. Despite their troubles, banks consider their loans sufficiently healthy for them to remain outside the scope of the IRC. To get them reclassified will require the Financial Services Agency, the bank regulator, to conduct stricter inspections of banks' non-performing loans, currently an unlikely prospect. That means the IRC will probably be stuck with the deadwood in construction and retailing. Or it will have to pick from a handful of much smaller and obscurer firms that have some potential to be revived.

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Face value

The retiring Mr Koc

Apr 17th 2003
From The Economist print edition

Why a foreign quote would be better than dynastic succession for Turkey's big companies

Get article background

CEDING control of a family business is never easy, particularly when the business has over 50,000 employees and a turnover of nearly $10 billion, putting it on a par with firms like Nike and Colgate-Palmolive and just slipping it into *Fortune* magazine's list of the 500 biggest companies outside America. At the beginning of this month, Rahmi Koc (pronounced “Kotch”) handed over the chairmanship of Koc Holding, a sprawling conglomerate, to the eldest of his three sons, Mustafa—on the left in the picture, with his father on the right. As he did so he said, “Knowing when to pull back at the right time is a virtue.” It is a virtue demonstrated by too few parents, be they occidental or oriental, running family businesses or dynastic dictatorships.

In Turkey, as elsewhere in the eastern Mediterranean and the Middle East, it is nothing short of revolutionary. Businessmen there, like politicians, generally cling to power all the way to the grave, invariably destroying their reputations—and often their businesses—in the process. Rahmi Koc, a keen sailor and remarkably fit at 72, says he will devote his remaining years to a range of philanthropic projects, which include funding archaeological digs at the ancient city of Aphrodisias and providing free education for the poor. They will be aided by his $2 billion personal fortune, which makes him one of the world's wealthiest men.

The big question is, will he really be able to keep away from the business? He has had plenty of time to prepare himself for retirement. Last year, Mustafa became his father's deputy, part of a three-year-long grooming process that culminated in this month's emotional handover of the chairmanship at the company's headquarters overlooking the Bosporus. After earning a degree in management at George Washington University 19 years ago, the younger Koc began his business career selling Koc's Tofas automobiles, produced under licence from Fiat. He later moved on to the group's export arm, RAM, and eventually rose to head its mining and energy division.

Now that Mustafa is chairman, his father moves on to be “Chairman Emeritus”. He remains on the main board, alongside Helmut Maucher, a former chief executive of Nestlé, and Alessandro Profumo, the boss of Italy's UniCredito, and he says he will follow the business closely—which should not be too difficult since he has kept an office right next to his son's. His son, in turn, says he will continue to seek advice from his dad, a situation fraught with potential difficulty.

Mr Koc senior took over the reins of what was then (as now) Turkey's most respected business from his father (Vehbi Koc, the group's founder) 18 years ago. On the occasion of that handover, the older man said, “If this country grows, so will our group advance and grow.” Rahmi Koc repeated that this month when he in turn passed on the baton.

In fact, Koc's fortunes are far less bound up with those of Turkey, a country still reeling from a two-year recession, than they were 18 years ago. The group's ability to shrug off the recession has been largely a result of its diversification. “While other companies were laying off people, we were adding staff,” says Mr Koc junior. Exports now account for a third of the group's turnover, and the new chairman wants to continue its expansion abroad. One recent failure: last-minute talks to rescue Grundig, a German electronics firm that has long been losing money, collapsed earlier this month, leaving Grundig with no

option but to file for bankruptcy at the beginning of this week.

Political relations

However, good relations with politicians remain crucial to doing business in this part of the world. Is Mustafa worried that under Turkey's new government, led by a former Islamist, Tayyip Erdogan, the country will drift away from the pro-secular legacy of his hero, Kemal Ataturk? “Not at all,” he insists: “the people who propelled Mr Erdogan to power were voting against the old guard of corrupt politicians. If he deviates from secularism, they will bring him down.” If he deviates from secularism, the Koc family are likely to let him know. “We have excellent relations with the prime minister,” says Mr Koc the younger, “and he listens to what we have to say.”

As the group expands farther afield, foreign policy becomes at least as important as domestic policy. And the group is understandably worried about Turkey's relations with both America and Europe. Mustafa believes that his country let America down when its parliament failed to approve a bill last month that would have enabled American combat troops to use Turkish soil to launch attacks against Iraqi forces. “Fortunately the war ended quickly with a minimum of casualties. Had they been high, Turkey would have been blamed,” he says. Still, relations between Turkey and its most important ally have been dented by the affair, which is bound to be bad for the foreign investment that the country sorely needs.

Foreign investors, however, are likely to remain leery of the tight control that families like Koc retain over most big businesses in Turkey and other countries in the region. Not a single company quoted on the Istanbul stock exchange has a majority of its shares held and traded among the general public. The reputation of Turkey's family businesses has been tainted recently by the way in which the Uzan family (a father and two sons) is alleged to have milked Motorola and Nokia, fellow investors in Telsim, a mobile-phone company that the Uzans control, of hundreds of millions of dollars. Nobody is suggesting that the Koc group would behave like that. But the group's reputation would benefit if it were to seek a quotation abroad and follow the rules of those countries whose investment it is hoping to attract. That should be part of Mustafa's agenda for the future. But it would risk inviting a break-up of what is, at heart, just an old-fashioned conglomerate. And what would dad think of that?

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Reinsurance

Love on the rocks

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From The Economist print edition

Ronald Grant

Arguments between insurers and reinsurers over the payment of claims are becoming increasingly acrimonious

A HAPPY marriage needs a bit of give and take. So it was, once, between insurance companies and the reinsurers to which they lay off risk. In good times, insurers bought cover for profitable risk, which strictly speaking they did not need. In bad times, reinsurers reciprocated by paying even questionable claims. None of this was explicit; nor, after so many years together, did it need to be. The two parties had prenuptial agreements, called reinsurance treaties, but these were deliberately vague. Sometimes they did not even specify the dates on which insurers' premiums were due. Of course, there were occasional rows, but these were settled in private.

The increasing fragility of reinsurers has jarred this harmony. Reinsurers have been slow to pay insurers' claims, or have declined to honour claims they consider not to be covered by treaties, to the point of going to court. They are also choosier about the risks they take on. Most shy away from terrorist risk. Many do not want to write cover for medical-malpractice insurance any more, or, after the recent wave of corporate scandals, for directors' and officers' insurance. Insurers feel betrayed, and say so. At a recent conference Martin South, of Zurich London, complained of “absolutely disgraceful treatment” by some reinsurers. “The old-boy way of doing business does not work any more,” says Chris Winans of Williams Capital in New York.

Because eight of the ten biggest reinsurers are European, the bust-up has taken on transatlantic dimensions. Lord Levene, chairman of Lloyd's of London, has been begging American insurance regulators to stop treating Lloyd's as an “alien reinsurer”. Alien reinsurers are required to hold collateral equivalent to 100% of gross liabilities, whereas domestic reinsurers have to fund their liabilities only on a net basis. Lord Levene's pleading has been in vain, even though Lloyd's—a market supplying both insurance and reinsurance—is in far better shape than most reinsurers are. According to John Oxendine, Georgia's insurance commissioner, the reason is “deep concern” about the health of European reinsurers.

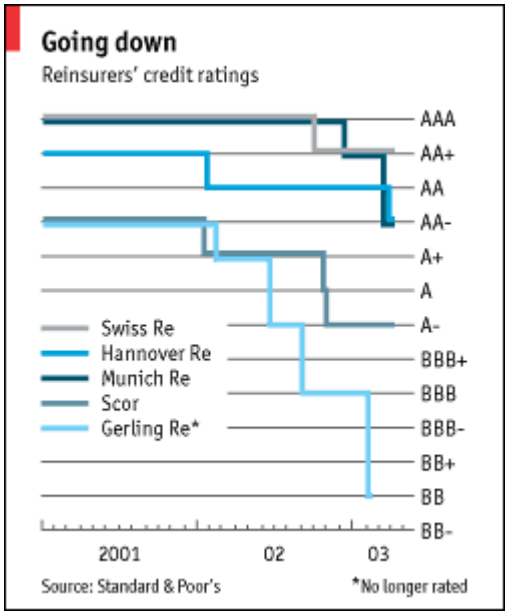
Despite a “hard” market (ie, rising prices), reinsurers are struggling. Charles Cantlay of Aon, an insurance broker, estimates that reinsurers have lost $200 billion in capital since the terrorist attacks of September 11th 2001. Only about $30 billion in new capital has come in, much of it through new companies established in Bermuda. Reinsurers will have to cover about half of the insurance claims

related to September 11th. The cost of this is anyone's guess: maybe $25 billion, maybe twice that. The value of their equity investments has shrivelled. And most of them have to deal with a legacy of sloppy underwriting when the market was soft.

Judged, and found wanting

As a result, many top reinsurers have lost their AAA credit ratings in the past few years. One exception is General Re, a subsidiary of Warren Buffett's Berkshire Hathaway. Rating agencies' judgments matter more to reinsurers than they do to other financial firms, including insurers. Because the reinsurance industry is largely unregulated, rating agencies are regarded as the most important arbiters of reinsurers' financial health.

This has perhaps been most painful for the two market leaders, long regarded as the epitome of financial strength. Last month Munich Re, the world's largest reinsurer, admitted a loss of *euro*2.2 billion ($2.2 billion) in the last quarter of 2002. It made a profit in the year, of *euro*1.1 billion, mainly because it sold stakes in other companies. Its results triggered another downgrade by Standard & Poor's (S&P), a credit-rating agency (see chart). To raise badly needed capital, it issued a *euro*3 billion subordinated bond on April 9th. Swiss Re, the world number two, lost SFr91m ($58m) last year and cut its dividend. Although Swiss Re is not seeking new capital, rating agencies have a “negative outlook” on the firm.



Scor, a French reinsurer, and General Re also made losses in 2002. Despite announcing a profit, reinstating its dividend and promising to do all it could to defend its credit rating on April 14th, Germany's Hannover Re, the world's fifth-biggest reinsurer, suffered a downgrade by S&P the following day.

However, the most troubled big reinsurer is another German company, Gerling Re. On being marked down by S&P in early February to below investment grade, it ceased to be rated by the agency. Gerling Re stopped writing new property-and-casualty business last autumn, but it must still honour its existing obligations. DEVK, a German insurer, has large outstanding claims against it. When Mr Buffett wrote to his shareholders recently that a large (unnamed) reinsurer had all but ceased paying claims and “owes many billions of dollars to hundreds of primary insurers who now face massive write-offs”, he meant Gerling Re. One of the insurers out of pocket, notes William Yankus of Fox-Pitt, Kelton, an investment bank, is GEICO, a subsidiary of Berkshire Hathaway. It is owed an estimated $47m.

See you in court

Mr Buffett and DEVK are unlikely to see all their claims paid. Last month Gerling, Gerling Re's parent, won permission from a German court to sell Gerling Re to a private investor, Achim Kann, despite objections from the country's financial-services regulator. Mr Kann seems to have nothing like the amount of money Gerling Re needs to meet outstanding claims, so its creditors will probably have to write the money off or try their luck in court.

The vagueness of reinsurance treaties may force other cases into court. Lloyd's has started arbitration proceedings against Swiss Re and five other reinsurers over a policy designed to protect its central fund, which meets policyholders' claims when any of the market's 71 underwriting syndicates is unable to do so. Lloyd's says that the reinsurers owe it up to £290m ($456m). Swiss Re says that the claims are not covered. The reinsurers, moreover, want back the £134m they have already paid.

If Lloyd's loses, at least it could take the hit. The central fund is fairly well endowed and Lloyd's, in contrast to most of the industry, has had a good run lately. Whatever the outcome, this is unlikely to be the last such lawsuit in the industry this year. As reinsurers cannot take on much new business and irritate their clients by refusing to pay old claims, more insurers will seek retribution. As in so many divorces, lawyers will be the only winners.

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The IMF and the World Bank

What about us?

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The focus on Iraq is diverting attention from other poor countries

FINANCE ministers from the world's richest economies were able to breathe a sigh of relief after the spring meetings of the World Bank and its sister body, the International Monetary Fund (IMF), last weekend in Washington, DC. Having spent most of their time talking about the rebuilding of Iraq (and what to do about its debts), they produced an artfully worded statement that at least papered over their disagreements. Representatives of poor countries were probably less impressed: not much attention was paid to their needs.

The spring meetings of the Bank and the IMF are supposed to give a shove to those items on the developing world's agenda that have got bogged down. This is always a tall order, but never more than this year. Even before the meeting, the World Bank's president, James Wolfensohn, had admitted that at times of international crisis the issue of poverty tends to get pushed aside.

This is a pity, because in some areas the need for progress is urgent. Top of the list is trade: the Doha round of talks is stalled because of intransigence, mainly European, over the issues of farm subsidies and the blocking, by America, of plans to make access to cheap medicines easier for poor countries. The various communiqués paid lip service to the need for a breakthrough: but there is little sign of action from those responsible for the impasse.

Debt relief was another disappointment for developing countries. The rich countries' commitment to helping heavily indebted poor countries was blandly restated without any acknowledgment of the problems raised by some critics—and, more important, with only coded criticism of those creditor countries that have yet to give the help they promised. And the talk of giving poor countries more of a say in the Bank and the IMF remains, for now, just talk.

None of this will surprise those developing countries that have grown used to seeing the gap between rich-country rhetoric and practice. A commitment to free trade is always much easier to reaffirm than to implement; and pledges seem easier to sign than cheques. But this failure to deliver sits oddly with the belief, which hardened after September 2001, that helping all countries to participate in the global economy was the best way to prevent “failed” states.

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Accounting in America

Sorting out the wreckage

Apr 17th 2003 | NEW YORK
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America's accountants learn the identity of their new overseer

Reuters

McDonough packs his abacus

BIT by bit, America's financial markets are being patched together again. On April 15th William Donaldson, chairman of the Securities and Exchange Commission (SEC), nominated William McDonough, the retiring head of the Federal Reserve Bank of New York, as the first head of the new Public Company Accounting Oversight Board. Moments later, it was reported that the troubled NASDAQ stockmarket would appoint another banker, Furlong Baldwin, as its chairman and an executive of a financial-technology firm, Robert Greifeld, as chief executive.

These appointments should bring stability to areas blighted by chaos. In Mr Baldwin the NASDAQ, a metaphor first for fast-growing technology companies and then for corporate collapse, has chosen a man whose career at Mercantile Bancshares, a Maryland bank, was nothing if not conservative. With Mr McDonough, regulators hope to fill a job that has so far been stillborn. The attempt by Mr Donaldson's predecessor, Harvey Pitt, to appoint William Webster, a former head of both the FBI and the CIA, to the position precipitated both Mr Pitt's resignation and the shredding of Mr Webster's reputation.

Mr McDonough's nomination was greeted by a deluge of approbation. As head of the New York Fed since 1993, he is a top financial regulator. On his watch, the New York Fed has become the guardian not only of commercial banks but also, unofficially, of the big Wall Street investment banks. His clout became clear in 1998 when he organised the bail-out of Long-Term Capital Management, a stricken hedge fund, sparing the financial system a much worse debacle—if at some cost in moral hazard. Since then, heads of investment banks have consulted informally with Mr McDonough. After September 11th 2001, co-operation between the New York Fed and leading clearing and investment banks helped to keep the financial system functioning.

Early this year Mr McDonough said he would step down in July, but he was vague about his plans. He has been mooted as a successor of Alan Greenspan as chairman of the Federal Reserve. Running the accounting oversight board would still not rule this out: although 68, he shows no sign of retiring. As for his own successor in New York, the names of Peter Fisher, deputy treasury secretary, and Glenn Hubbard, an economics professor who recently stepped down as chairman of President Bush's Council of Economic Advisors, have been mentioned.

When Mr McDonough changes jobs his salary will rise from $313,000 annually, already almost double Mr Greenspan's, to $556,000, more than President Bush's. No one doubts, after all the scandals, that Mr McDonough will have an important job. On such a salary, he had better do it well.

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Japanese accounting

Spring fever

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A new device to embellish the books of Japanese companies

IN THE spring, a Japanese politician's fancy usually turns to propping up the stockmarket. In years gone by, Japan's policymakers have suddenly tightened rules on short-selling and dreamed up a public stock-buying entity to shore up prices in time for March 31st, the end of most companies' financial year. This has boosted the book value of corporate cross-shareholdings—a boon, in particular, for the country's banks and life insurers. Not since 1982, however, has the Nikkei 225 stockmarket index ended March as low as it did this year. Many companies have large, unrealised losses in their equity portfolios.

The ingenuity of the old guard in the Liberal Democratic Party (LDP), which leads Japan's governing coalition, is not yet exhausted. If stockmarkets refuse to rise, these politicians will do the next best thing: revise accounting regulations so that sagging share prices need not be reflected in companies' year-end accounts. Led by Hideyuki Aizawa, head of the LDP's powerful committee on anti-deflation policies, and Taro Aso, the party's policy chief, they are putting the finishing touches to a bill that temporarily suspends mark-to-market accounting for banks, life insurers and 10,000-odd listed companies.

The bill will enable companies to choose whether they want to value their “long-term” equity holdings at acquisition cost, or at market prices. The idea draws on a similar exemption for bonds that life insurers plan to hold to maturity, even though, unlike bonds, equities do not mature. It is not clear how long the freeze will last; estimates range from two to five years.

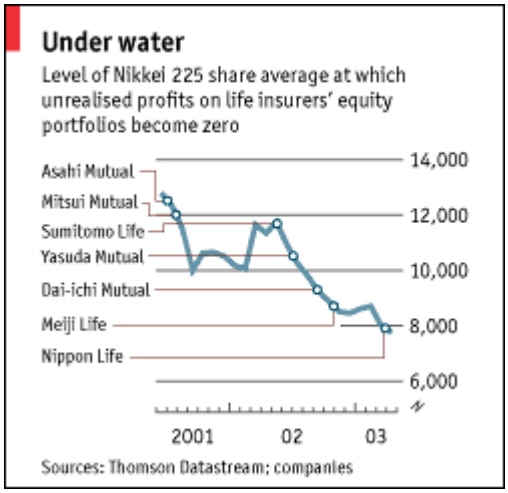
The LDP, concerned that falling property prices will dent corporate accounts, also wants to delay by two years the introduction of impairment accounting for fixed assets, currently scheduled for 2005. The politicians want market-value accounting to be suspended by May, before companies have to report their earnings for the previous financial year. At their urging, the Accounting Standards Board of Japan, an independent body that supposedly sets accounting standards, has agreed to study these proposals on April 17th. Still, the accounting body is unlikely to adopt the plan in time for May, if at all.

That may not matter: the politicians' efforts are gathering steam, and they are ready to push through a privately sponsored bill within the next month or so, even without the accounting board's support. Still, the bill will probably only help a few companies. Those that revert to valuing shares at purchase prices will immediately look weak. Besides, say analysts, it will be fairly easy to calculate roughly how their books would have looked had they stuck to market-value accounting. A recent survey of 225 listed companies by the *Nihon Keizai Shimbun*, a newspaper, found that 83% would still mark to market.

So why are the politicians so keen? Most likely, they want to help the struggling, mainly mutually owned, life-insurance industry, which is thought to have had unrealised equity losses of ¥2 trillion ($16.6 billion) at the end of March (see chart). Regulations say that if a life insurer's capital, dented by such losses, falls below a certain level, the firm may not make interest payments on certain types of subordinated debt: in effect, it must default. The negative publicity could then lead to policy cancellations and even the collapse of some insurers. Freezing market-value accounting would wipe unrealised losses from the books.

The LDP's device may yet fail. It is opposed bitterly by some within the party and by regulators. Hirofumi Gomi, head of the supervisory division of the Financial Services Agency, Japan's

financial regulator, says that changes in accounting practice should be left to professionals. “Personally, I am against the proposal,” he says. “This will lead to a loss of confidence in Japan's financial markets.”



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The Chicago Mercantile Exchange

Making uncertainty pay

Apr 17th 2003 | CHICAGO
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Chicago's biggest derivatives exchange is thriving on volatility

WAR, terrorist threats, volatile stockmarkets and a wobbly economy: terrible, isn't it? Not for derivatives exchanges, which have been booming as investors seek to manage their risk in uncertain times. The volume of trading in global futures and options surged by 37% last year, after rising by 47% in 2001. Traders are raking in money, whichever way markets go.

These should be golden days in Chicago, the cradle of futures trading and home to three of the world's largest derivatives exchanges. So they are for one of the trio, the Chicago Mercantile Exchange (CME), the biggest futures exchange in the world after Eurex, a German-Swiss venture (see chart). The second, the Chicago Board of Trade (CBOT), is facing a fierce challenge from Eurex, while the third, the Chicago Board Options Exchange (CBOE) has problems too.

Just how well the CME did last year should become clear at its annual meeting on April 22nd. But its initial public offering in December—the first by an American exchange—was one of the few successful flotations of 2002: first priced at $35, its shares closed at $47.50 on April 15th. Trading volume in March was the highest ever, 41% more than a year before.

Terry Duffy, who marks his first anniversary as the CME's chairman this month, dismisses suggestions that derivatives will lose their lustre when war ends. “Companies' margins are thin, and risk-management is a huge part of running a big business these days,” he says. However, rather than simply relying on high volatility, the CME is also trying to attract new participants. It has created several “bite-sized” products, known as E-mini futures. These contracts are small, relatively cheap products that appeal not only to professional portfolio managers but also to traders and private clients. The S&P 500E-mini, whose trading volume tripled in 2002, is now the world's fourth most-traded futures contract.

The success of the E-minis, which are traded only electronically, is a reminder of the importance of technology. America's exchanges lag behind Europe's, where almost all trading is electronic. At the CME the share of screen trading is rising—44% by volume in the first quarter, up from a tiny fraction in 1999—but the exchange also retains the open-outcry system still favoured by many members. Brokers grumble about the costs of running dual platforms, but Mr Duffy, a former pit trader who now prefers the screen, will offer both as long as customers want them.

Eurex, which is all-electronic, plans to launch its own derivatives exchange in America next year, now that the CBOT has ended a technology-sharing deal in favour of an agreement with Euronext.liffe, another European exchange. Eurex may now compete in the lucrative Treasury futures market, which CBOT dominates. “Eurex has taught us two things”, says Galen Burghardt of Carr Futures, a broking firm: “the importance of electronic platforms, and the importance of keeping trading costs low.” Mr Duffy is watching closely. About half of the CME's budget and 40% of its staff are now dedicated to technology. But brokers say the CME's Globex platform has its flaws, and complain that exchange fees have not been reduced with electronic trading.

Consolidation is another hot topic in the industry. Thanks to its IPO, the CME has the money to buy. MrDuffy raises the prospect, but is tight-lipped about possible targets. The exchange has already forged alliances with a string of foreign partners. In particular, it is betting on growth in Asia. Deals have been

signed with exchanges in Shanghai and Singapore and, most recently, with the Korea Stock Exchange, which thanks to huge numbers of small equity-options leads the world in derivatives volume. However, only the Singapore agreement has yielded much revenue for the CME so far.

Chicago's other two exchanges look less happy. Since falling out with Eurex, the CBOT has offered to buy the independent house that takes most of its clearing business, despite strained relations between clearer and exchange. Insiders say its offer fell far short. Now the CBOT is said to be threatening to set up its own clearer, possibly in the hope of forcing a deal.

Things also look bleak at the CBOE, Chicago's smallest derivatives exchange, which is being walloped by the International Securities Exchange (ISE), an all-electronic innovative upstart in options trading. Despite the boom in derivatives trading, the CBOE's volume fell last year. The ISE's market share in equity options climbed to 27% in March, up from 18% a year before. Its contract volume rose by 70% over the same period. The CBOE, although part-electronic, has not moved quickly enough. One observer calls it a “charter member of the flat-earth society” for its failure to adapt to the times.

AP

Still shouting at the CME

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Winners from war

Building on sand

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At least a few companies are experiencing a bull market

WHO, one might ask, has gained from the war in Iraq? Not defence contractors, the most likely beneficiaries, whose shares have wallowed for months. Instead, in the lead up to the war and, but for a brief pause, ever since, the chief stockmarket winners have been companies with expertise in reconstruction.

The Leuthold Group, a Minneapolis-based investment research boutique, has compiled an index of 13 companies adept at rebuilding that ranges from the obvious (oil-services firms such as Halliburton, the former firm of vice-president Dick Cheney, as well as Schlumberger and Baker-Hughes) to the not-so-obvious (Chicago Bridge & Iron, a maker of vast metal frames, and Core Laboratories, which manages reservoirs).

To complete the list, Leuthold would like to find public companies with expertise in hazardous-waste disposal, Arab banking and insurance, and transportation—suppliers, in other words, of the sort of things that will help to get the Iraqi economy back on its feet.

Leuthold says that its index is a way of mapping how events unfold, not an investment recommendation. That may come, however, depending on the selected group's valuation and earnings growth, and on what insiders at these companies are doing with their own shares. Perhaps they constitute that much talked-about, but elusive group: the smart money.

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Economics focus

Atmospheric pressure

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Why some environmental agreements work and others don't

WHY did the Montreal Protocol succeed and the Kyoto Protocol fail? Both were environmental treaties negotiated over perceived threats to the atmosphere. In Montreal, the threat came mainly from the harm that chlorofluorocarbons (CFCs) do to the ozone layer; in Kyoto, from gases such as carbon dioxide that many scientists say are changing the climate.

Both treaties thus tried to tackle problems that potentially affect every country, and are caused by activities that occur in every country. Both were negotiated against a background of scientific uncertainty. The science of ozone depletion was uncertain when the Montreal Protocol was negotiated in 1987; the uncertainties surrounding the science of climate change are huge.

However, the Montreal Protocol seems to have been a success. Only a handful of countries have not signed (they include Afghanistan and Iraq, which have had other preoccupations). The build-up of ozone-depleting chemicals in the atmosphere peaked in 1994 and is now falling. The ozone layer is now on track to recover, and the concentration of ozone in the stratosphere should be back to its pre-1980 level by mid-century.

The Kyoto treaty, though consciously modelled on Montreal, has been a shambles. It has been ratified by almost 100 countries—but mainly those for which the treaty specifies no ceiling on emissions of carbon dioxide. By contrast, the world's biggest emitter of the gas, the United States, has refused to sign—not surprisingly, given that doing so would now require a reduction in emissions of 30-35% from its business-as-usual level by 2008-12. No government could have made such a promise. The world output of carbon dioxide shows every sign of busting the Kyoto targets and continuing to do so for some time to come.

What's in it for us?

A new book* by Scott Barrett, professor of environmental economics at Johns Hopkins University, argues that the different fortunes of these two treaties shed light on why some international agreements work and others fail. Such treaties, he argues, work only if they are self-enforcing. Every country wants to avoid paying to protect the environment. But each also recognises that, if every country took this approach, the overall result would be worse. So each country—in a successful treaty—prefers to bridle its behaviour than to accept the consequences if everyone goes it alone. There are many more environmental treaties than ever before: only four of the 225 currently in force were adopted by 1945. So it is important to make them work.

Because a treaty is made between sovereign nations, it needs to include incentives to persuade countries to alter their behaviour. These take various forms. Mr Barrett points to one of the oldest environmental agreements, the North Pacific Fur Seal Treaty, as an example of how to get it right. The treaty, among the four main seal-hunting countries, was introduced in 1911 and reversed a rapid decline in the population of fur seals caused by over-hunting. It did so by banning hunting at sea, where they were common property and therefore over-exploited: seals could then be killed only on the territory of individual governments, which acquired an interest in protecting them. That created an overall gain (more seals), which could be distributed to leave all countries better off, and therefore with an incentive to stick to their agreement.

Such successes are hard to replicate. If the gains from co-operation are great, there is a big incentive to

be a free rider: to take the gains without paying the cost. But in that situation, with large gains, punishing free riders is harder, because the co-operating countries usually suffer too.

“The economics of ozone and climate policy are really very different”

With the Montreal Protocol, as with the fur-seal treaty, participants have largely complied. Why? Partly, because it contained an enforcement mechanism, unlike most environmental treaties. The penalties included trade sanctions against products containing or (more controversially) made by using CFCs. More important, the costs of implementing the protocol were relatively low and the benefits from complying—such as the avoidance of skin cancers and cataracts—were huge. To secure these benefits, rich countries needed the co-operation of many poorer countries. So the treaty included a fund to help to pay for the cost of switching to CFC-free technologies. Such side-payments help to spread the benefits and reduce the costs.

And Kyoto? Here, argues Mr Barrett, the balance between costs and benefits is much less promising. Some countries may gain from climate change: agriculture in Canada and Russia (two big producers of fossil fuels) may benefit, even if farming in tropical countries suffers. For the United States, the benefits of reducing carbon-dioxide emissions would be much smaller than the harm done by doubling the concentration of the gas in the atmosphere. The harsh truth, says Mr Barrett, “is that ozone depletion may be the more serious environmental problem...Ozone depletion kills people. Current studies do not show climate change to be as deadly.” And the costs of climate mitigation are far higher than those of giving up CFCs. “The economics of ozone and climate policy are really very different.”

The alternative, he suggests, might be a technology-based approach, mandating standards that move the world away from dependence on carbon-based fuels. Such a policy would start from asking what kind of behaviour could be enforced, rather than, like Kyoto, incorporating enforcement as an afterthought. Mr Barrett may be right. But more probably, there can be no workable treaty on climate change, at least with the present state of knowledge. Unless gains are clearly seen to exceed costs, the world will choose to adapt, not agree.

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* “Environment and Statecraft: The Strategy of Environmental Treaty-Making”. Oxford University Press, 2003

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Methane and climate change

Swamp thing or monster of the deep?

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From The Economist print edition

Ardea

A discussion about the end of the last ice age has repercussions for today's climate

RESEARCHERS have known for a long time that a mixture of water and a gas such as methane can, in the right circumstances, form an ice-like substance called a clathrate, or gas hydrate, at temperatures above normal freezing point. Ice has an open molecular structure (this is why water, unlike most liquids, expands when it freezes, and thus bursts pipes in the winter). Add a bit of pressure and that openness will accommodate gas molecules. These, in turn, lend support to ice crystals that would otherwise melt. Pressure is one of the things that the bottom of the sea is famous for. So, if you add a source of methane, conditions there are often ideal for the formation of clathrates.

But clathrates are hard to study. Once dredged up, they quickly melt, and the gas is released. This is awkward, for they may hold the key to the climatic shifts that took place at the end of the last ice age. And this may, in turn, illuminate the way that the climate works today.

The discussion on clathrates and the end of the ice age was one of the topics at a joint meeting of the American Geological Union, the European Geological Society and the European Union of Geosciences which has just been held in Nice. It revolves around the cause of a large release of methane into the atmosphere at the end of the last ice age. This is known to have happened because it has left traces in air-bubbles trapped in ancient ice. Methane is a greenhouse gas—and a far more powerful one than carbon dioxide. It is reasonable to think that a big methane release and the end of an ice age might be more than coincidental. Where this methane came from matters because, at the moment, something between 2 trillion and 8 trillion tonnes of methane is thought to be locked up in under-sea clathrates. If it suddenly “burped” up, the Earth could be in for a torrid time.

Oceanic gas pains

There are two schools of thought about the origins of the methane released at the end of the ice age. One, championed by James Kennett, a paleo-oceanographer from the University of California, Santa Barbara, is that it was indeed released from clathrates. The argument goes like this. Suppose the oceans warm up a bit, as they regularly do as part of natural climate cycles. A significant amount of methane hydrate could suddenly find itself outside its stability zone and thus separate into water molecules and methane gas. The gas would soon find its way into the atmosphere, where it would add to the

greenhouse effect and cause the temperature to rise. That, in turn, would cause further methane release. In other words, there would be positive feedback that could end up dumping a lot of methane into the atmosphere. On this view of things, the methane at the bottom of the ocean is something to worry about.

It is a neat idea. However, there is an equally persuasive argument that runs counter to it. This is that a warming atmosphere will melt ice at the poles. That will raise the sea level, increasing the pressure at the bottom and thus stabilising clathrates there—in other words, there will be negative feedback. But if that is true, then the methane spike at the end of the ice age must have been caused by something else.

Mark Maslin of the Environmental Change Research Centre at University College, London, believes that the spike was caused mainly by emissions from tropical wetlands and peat bogs that formed as the ice retreated. Since an increase in peat coverage is not on the list of environmental changes going on at the moment, another spike is unlikely to come from that quarter. Dr Maslin, moreover, thinks he can prove he is right—or, at least, that he can show that the methane spike was not caused principally by the oceans burping. This is because methane from clathrates and methane from peat are slightly different.

A molecule of methane consists of four hydrogen atoms and one carbon atom. Carbon comes in several isotopic varieties, with different weights. Most of it is an isotope known as carbon-12 (^{12}C), but there is always a smattering of a heavier isotope, ^{13}C, mixed in. Because ^{13}C is heavier, organisms tend to absorb it less readily than they do ^{12}C. This means that carbon which comes from a plant, or a swamp-dwelling bacterium that is digesting that plant, will have less ^{13}C in it than did the carbon in the atmosphere from which the plant drew its sustenance.

However, methane from undersea hydrates has an even bigger ^{13}C deficit than that from surface bacteria. This is because it has been generated by bugs called archaeobacteria. Since this “deep biosphere” is such an inhospitable environment, these archaeobacteria need to be even more discriminating in their choice of carbon isotopes than organisms at the surface. So looking at the amount of ^{13}C in bubbles formed at the end of the ice age should help to resolve the issue of where the methane came from.

The woods and the trees

Unfortunately, things are not quite that straightforward. For the end of the ice age also saw a vast expansion in the amount of vegetation. Dr Maslin's computer models of the expansion of life on earth as the glaciers receded suggest that about a trillion tonnes of extra carbon was sucked out of the atmosphere to help to manufacture all those extra leaves, stalks and trunks. Because of plants' distaste for ^{13}C, this would slightly increase the concentration of that variety of carbon left in the atmosphere.

The same air bubbles which show all that extra methane at the end of the last ice age do indeed show an increase in the ^{13}C concentration. But it is too small by half. On the basis of that increase alone, an estimate of only 500 billion tonnes of extra carbon going into plants would be much closer to the mark.

Dr Maslin now thinks his mistake was not to include methane escaping from hydrates. A significant release of hydrate methane, low in ^{13}C, would counteract the increase in ^{13}C concentration caused by the greening of the world. In Dr Maslin's carbon budget, such a release “hid” a lot of the world's new forests from view.

One up, it would appear, to Dr Kennett. However, when the calculation is done in detail, the amount of hydrate-derived methane needed to balance the isotopic equations is only 100 billion tonnes. That is far less than the actual increase of methane in the atmosphere in the period in question. The rest, Dr Maslin concludes, cannot have come from hydrates. Instead, it must have been produced by swamps, marshes and bogs.

Perhaps, therefore, the negative feedback model is dominant. But the debate is not over yet. Dr Kennett, perfectly reasonably, asks where the geological evidence is for all those extra swamps. On the basis of Dr Maslin's analysis, though, there is reason to hope that the oceans will not burp too loudly in the near future.

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The human genome

This is it. Honest

Apr 17th 2003
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The sequence of the human genome is now "complete"

IT IS amazing how quickly something can go from being hot news to wrapping fish and chips. It would be an exaggeration to say that the sequencing of the human genome has already made that transition. But it would not be much of one. In June 2000, the announcement of two "draft" DNA sequences of the human genome dominated the headlines for several days. The announcement on April 14th 2003 that the sequence is now complete just about made the inside pages. Even the bright, new "finished" sequence, though, will have a few errors. The question is merely when you give up, declare victory and go home. The participants in the International Human Genome Sequencing Consortium have decided that one mistake in 100,000 is good enough. The project is officially at an end.

No doubt the fact that next week marks the 50th anniversary of the publication of DNA's structure had something to do with the exact timing of the announcement. In that sense the consortium's news managers were unlucky to be fighting for page space and air time with the closing days of a war that involved the armed forces of both of the main protagonists. America, in the guise of the National Institutes of Health and the Department of Energy, and Britain, in the guise of the Wellcome Trust Sanger Institute, did almost all the work in this "international" project. But there is also a sense in which "so what?" is an appropriate public response. Progress in science requires that today's hot news become tomorrow's textbook commonplace. The exciting stuff now is not the sequence, but what that sequence has to say about biology and medicine. Announcements about this will fill the next few decades. And the textbooks of the decades after that.

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SARS

Getting a grippe

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From The Economist print edition

A virus yields up its genes

SINCE its debut in China in November, Severe Acute Respiratory Syndrome (SARS) has afflicted more than 3,200 people in 23 countries, killing more than 150 so far. But while the casualties continue to mount, so does scientific understanding of this nasty infectious disease.

Although a number of culprits have been fingered as the cause of SARS, researchers are homing in on two particular types of virus, coronaviruses and metapneumoviruses. Experiments carried out at Erasmus University in the Netherlands have shown that a coronavirus taken from SARS patients produces SARS-like symptoms in monkeys. That indicates that it probably does so in people. And in the past week, two groups of geneticists, one at the Michael Smith Genome Sciences Centre in Vancouver, British Columbia, and the other at the Centres for Disease Control and Prevention in Atlanta, Georgia, have succeeded in sequencing the genomes of coronaviruses isolated from patients in Toronto and Asia.

According to Rob Holt, head of sequencing at the Canadian centre, the two genomes are almost identical. They are each believed to consist of half-a-dozen genes. In this they resemble the three groups of coronaviruses already known to cause animal and human diseases, among them the common cold.

However, although the new coronavirus has the same basic proteins as its better known relatives, half of the amino-acid building blocks those proteins are made from are different. The new isolate may also encode a few novel gene products whose function is, as yet, unknown. In terms of genetic sequence, therefore, there are considerable differences between it and previously known coronaviruses.

How the new coronavirus came to be so different from its relatives—whether through mutation or through having picked up genetic bits and pieces from other organisms—is still a mystery. And just as uncertain, for the moment, is how these genetic features relate to the virus's ability to spread and to cause disease. In the meantime, having the sequence to hand may help to improve the sensitivity of diagnostic tests now in development, as well as providing targets for researchers to test existing pharmaceutical molecules as a short-cut to finding a drug to treat SARS. In the longer term, the sequence will aid in the search for new vaccines and medicines. As Klaus Stohr, a virologist who works at the World Health Organisation, puts it, the genome sequence opens an important chapter, but the full story of SARS has yet to unfold.

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Labs on chips

Lost and found

Apr 17th 2003
From The Economist print edition

An old technique may make building chip-sized chemical laboratories easier

LOST-WAX casting is an ancient trick. A sculptor makes a model in wax of the statue he proposes to cast in, say, bronze. He slathers the wax with plaster, lets the plaster dry, heats the whole thing up to melt the wax, and then drains the wax out leaving a statue-shaped hole into which the liquid bronze can be poured.

Jennifer Lewis of the University of Illinois, Urbana-Champaign, and her colleagues are using a similar trick to solve a problem not in sculpture, but in plumbing. The plumbing concerned, though, is rather smaller than that which services the average house. Dr Lewis is trying to plumb so-called labs on chips, in which minute quantities of liquids have to be brought together for such purposes as instant chemical analysis. At the moment, such “microfluidic” devices are restricted to two dimensions. Lost-wax plumbing allows them to be built in three, which can reduce their size, and improve their ability to mix different liquids.

The process, described in this month's *Nature Materials*, starts with a tool that works like a tiny cake icer and which is loaded with a waxy “ink”. The icer is mounted above a movable platform, on which the microfluidic device is to be formed. The platform's movements under the icer's nozzle are computer-controlled and, as it moves, a thin cylinder of the ink is extruded from the nozzle and deposited on to the platform. The result is a network of waxy trails with diameters as little as ten millionths of a metre.

The platform is then lowered slightly, and the process repeated, building up a three-dimensional scaffold. Once the scaffold is complete, it is covered in epoxy resin and, when that has hardened, the whole structure is warmed to melt the ink, which is then poured out, creating a 3-D pipe network.

In principle, that could be enough to create the desired plumbing, but in practice Dr Lewis has found that another stage is needed. Building the piping scaffold in layers means that each point where two ink-traces meet is, in effect, a joint in the plumbing. Rarely are all those joints needed. On the other hand, it is hard to devise a geometrical arrangement that avoids them, given that the pipework in each layer is being laid down as a continuous cylinder and that the lost-wax method works best if only one connected space is filled with wax. So, to get the plumbing right, she fills the pipes with a second substance—a liquid resin that hardens when exposed to ultraviolet light. Unneeded parts of the network can thus be sealed off at the flick of a laser, and the remaining liquid resin poured out again.

Building microfluidic chips upwards rather than outwards obviously saves space. Their size (or, rather, lack of it) means that chips made this way could form the heart of sensors inserted into people to monitor disease progression. More subtly, the constant twisting and turning of the piping means that liquids moving through such a chip get thoroughly mixed. Since one of the problems with labs on chips is that surface-tension effects in such confined spaces tend to slow mixing down, that is a significant bonus regardless of application.

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Gamma-ray bursts

A mystery no longer

Apr 17th 2003 | CAMBRIDGE, MASSACHUSETTS
From The Economist print edition

Gamma-ray bursts are stellar explosions

ON MARCH 29th, a satellite called the High Energy Transient Explorer (HETE) detected a dazzling burst of gamma rays from space. Of all the bursts whose distances from Earth have been measured, this was closest. That meant the burst could be studied in unprecedented detail.

Gamma-ray bursts have puzzled astronomers since their discovery in the 1960s. They are the biggest explosions known, and happen in distant galaxies. Thanks to HETE's watchfulness, they are a mystery no longer. As soon as the burst was detected, telescopes around the world were turned towards it, in the hope of unravelling its secrets. In the end, the unravelling was achieved by a group co-ordinated by Krzysztof Stanek of the Harvard-Smithsonian Centre for Astrophysics, in Cambridge, Massachusetts.

The group's aim was to obtain an optical spectrum. Analysing the spectral details of a heavenly body can reveal its composition. Unfortunately, getting the spectrum of a gamma-ray burst is hard, because the optical afterglow fades rapidly. And in those few cases when astronomers have leapt into action quickly enough, the spectra were like plain canvases, with no discernible colour enhancements.

Astronomers held out the hope that the spectrum of a brighter burst would be more revealing. It was. What the group saw was the light emitted by iron and silicon when they are heated to extreme temperatures and propelled at great speeds. This links gamma-ray bursts to a more familiar type of explosion, the hypernova.

A hypernova, as the name suggests, is a super-supernova. It is the result of a star about 30 times more massive than the sun collapsing in on itself, and then exploding. The nuclear reactions that take place as a result produce heavy elements such as silicon and iron in large quantities.

Astronomers have suspected a link between gamma-ray bursts and hypernovae for a while, but until now have not been able to prove one. The new discovery does so. Models of the process suggest that the gamma rays that a hypernova emits would be focused into narrow beams. Only if one of these beams happens to point towards Earth is the observed result a gamma-ray burst. Otherwise, only the visible explosion is seen. Before, there had been only circumstantial evidence that hypernovae cause gamma-ray bursts. Now, that evidence is iron- and, er, silicon-clad.

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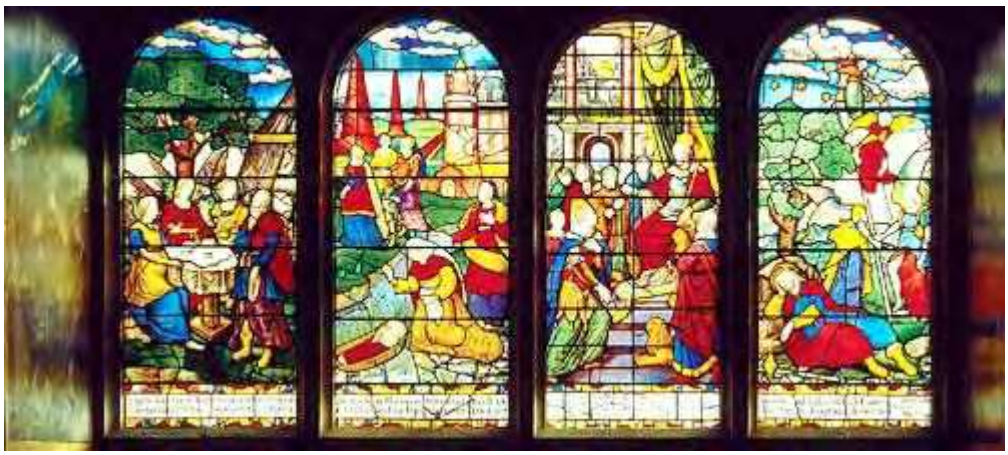
The King James Bible

The language of light

Apr 17th 2003
From The Economist print edition

Hatfield House



King James I wanted a Bible that would unite his fractured realm. A new book recounts how this great work was made

NO BOOK has influenced English as profoundly as the King James Bible of 1611. Its phrases and rhythms have been as vital to the growth of the language as blood to the body. Even in the age of text-messaging and e-mail, its sonorities speak to mind and heart with a vigorous immediacy that takes the breath away.

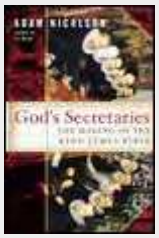
As Adam Nicolson points out in his engaging and moving account, this was not ordinary English even when it was written. William Tyndale in the 1520s hoped that ploughboys would read his Bible, and Martin Luther in the 1530s wanted the gospels written in a language that butchers and cobblers could understand. But the King James was composed in an English that had never been spoken in the street. This was the language of deliberate godliness, yet grounded in easy words and simple things: able to swoop in one verse from the sublimity of the eternal to the clumsiness of a fisherman jumping from a boat.

There was a political purpose in this. James I, baptised a Catholic but brought up by Scottish Presbyterians, dreamed of bridging in this Bible his kingdom's religious divides. The translators were drawn both from the established Church of England, episcopal and ceremonious, and from among the Puritans, fiercely iconoclastic spirits who wanted no truck with crosses, candles or genuflections, to bishop or to king. The Puritan impulse, to let in light and to live by the Word alone, had to co-exist with the murkier sumptuousness of the Jacobean church-court elite. Clearly James himself leaned to the episcopal side; but his Bible was intended first of all as an *irenicon*, a thing of peace.

Very little is known about how it was made. The men were grouped into six teams, or “companies”, and were based at Oxford, Cambridge and Westminster. The translated text was written in the left-hand column only of a large ledger, the right-hand kept blank for comments and improvements. In this fashion, working more like a team of accountants than the devisers of a national treasure, the translators painstakingly put the new text together.

Their lives, too, are scarcely recorded, though Mr Nicolson reconstructs a few of them to marvellous

God's Secretaries: The Making of the King James Bible
By Adam Nicolson



HarperCollins; 304 pages; $24.95. Published in Britain as "Power and Glory: Jacobean England and the Making of the King James Bible"; HarperCollins; £18.99

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effect. We now know that Laurence Chaderton, a Puritan who translated the “Song of Songs”, may have been moved by memories of the lovely boy he had wished to “embosom” as a student at Cambridge; and that among the translators of Genesis was a man who had been to the West Indies, colouring his descriptions of Eden with memories of the parrots and forests of Dominica.

One translator, Samuel Ward, left a diary. It was not of his labours on the Bible, but of his struggles with sin. As a Puritan fellow of Christ's College, Cambridge, he was bound to a regime of sermons and chapel-going. But his thoughts wandered rather to adultery and gluttony. “My longing after damsens”, he wrote in his diary on August 8th 1596. “...Oh that I could so long after Godes graces.” As he worked on God's word, his mind was tormented by sweet surfeits of plums and pears.

A mere 39 pages survive of one team's arguments over language. They wondered whether God should “upbraid” someone or “twit” them, and whether the beauty of a flower should be expressed as its “goodliness and sightliness” or, far better, its “grace and fashion”. For all of them, the tiniest touches made a difference. The Calvinist Geneva Bible of the 1550s had rendered the second verse of Genesis:

> And the earth was without form and void, and darkness was upon the deep, and the Spirit of God moved upon the waters.

King James's translators gave it thus:

> And the earth was without form, and void, and the darkness was upon the face of the deep: and the Spirit of God moved upon the face of the waters.

The comma after “form” and the colon after “deep” both heighten the drama of the empty stage on which creation is about to occur. But the masterstroke lies in “the face of the deep” and “the face of the waters”, phrases by which the almost human elements appear to be responding to the touch of God.

When the newly translated texts arrived, each team would sit and listen as the words were read to them. Their child-like attention was vitally important. This Bible was meant, above all, to be read out and heard; euphony, its governing principle, is also the secret of its abiding power.

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By Adam Nicolson.
HarperCollins; 304 pages; $24.95. Published in Britain as "Power and Glory: Jacobean England and the Making of the King James Bible"; HarperCollins; £18.99

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Political economy

Robert Shiller's awfully big idea

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THIS is not Robert Shiller's first book. His previous offering, “Irrational Exuberance” (Princeton, 2000), was a dissection of the wilder nonsense of America's stockmarket boom. The title came from a comment made by Mr Shiller, an economics professor at Yale, to Alan Greenspan, the chairman of the Federal Reserve, who used it in an early speech—in 1996. Unlike Mr Greenspan's, Mr Shiller's timing was perfect: his book came out in March 2000, when the NASDAQ peaked at over 5,000.

The New Financial Order: Risk in the 21st Century
By Robert J. Shiller

Princeton University Press; 366 pages; $29.95 and £19.95

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But helping to explode the myths of one of the biggest stockmarket bubbles in history was, it turns out, only a sideline and a small one at that. Mr Shiller's real aim is much bigger: he wants to completely reshape—or, as he calls it, “democratise”—the world's financial system. He proposes “a radically new risk management infrastructure to help secure the wealth of nations”.

Had his ideas been in use after the second world war, says Mr Shiller in an exercise in alternative history, far more money would have been transferred to Europe than was the case under the Marshall Plan, and Asia would have recovered much faster than it did. In Africa, “millions who died from AIDS and other afflictions might be alive today.” The near-collapse of the former Soviet Union after 1991 might have been avoided, as would the periodic financial crises that have afflicted Asia and Latin America. Mr Shiller, for one, clearly thinks that his ideas have merit. Should the rest of us follow suit?

Perhaps surprisingly for an economist, his views seem as grounded in ethics as in finance. Mr Shiller has, for example, a hearty dislike of inequality, and his views are much influenced by John Rawls, an American philosopher, who argued that a just society is one in which increases in inequality are justified only if they benefit the poorest in society. Mr Shiller adapts Rawls's original position; increases in inequality are justified, but not if they are “gratuitous, random and painful”.

This moral foundation has financial implications. Mr Shiller is concerned about unexpected shifts in wealth not only between people in one country but between different countries over time. Who, in 1965, would have thought that by 1990 South Korea's income would have soared but Argentina's fallen? Enlightened self-interest, he believes, should help in making people want to make his ideas work.

These ideas are striking, to put it mildly. He points out that the stockmarket is in fact a pretty poor barometer of the risks that people take in their everyday lives. Yes, the dollar value of the subsequent crash has been roughly equivalent “to the destruction of all of the houses in the country”, but the corporate income flows that are represented by the stockmarket are not as big as people imagine. In 2000, a record year, after-tax corporate profits were only about $2,000 per person.

In fact people are much more at risk from changes in, say, the price of their house, inflation, technological change and so forth. The list of these risks is so long and ill-defined that Mr Shiller thinks it better to concentrate on bigger, national numbers instead. This would enable the creation of so-called macro markets, where prices would be determined by such things as changes in GDP or inflation. Huge advances in information technology—and the availability of information—make such markets eminently possible, he believes. And desirable too, since it would make these risks more visible.

Who'd be in charge?

People avoid doing things that subject them to economic risk, which results in “a depressing uniformity and lack of adventure”. Since the sort of diversification Mr Shiller advocates reduces these individual risks to almost nothing—a central tenet of financial theory—taking them becomes easier and the whole economy benefits.

Financial markets often make a trade-off between specificity and liquidity, but generally the broader the risks covered by the financial instrument that people use to hedge, the less effective the instrument is. One of the problems with Mr Shiller's big idea is that his macro securities are very broad indeed, though he seems to ignore the implications of this. Moreover, a lot of Mr Shiller's ideas would mean that people and countries would have to pay out over long periods of time, perhaps 50 years or more. Historically, as he points out, many financial contracts have been honoured even after wars. But it seems unlikely that that can be taken for granted forever.

Nor is it entirely clear who would be running things in the author's brave new world. Mr Shiller would like to say that it would be the people themselves. Yet his ideas seem to call for bigger, more centralised institutions. One sentence gives you some idea of what he has in mind: “We could put all these securities into one gigantic investment portfolio that would represent a claim on everything of economic value in the world.”

Mr Shiller himself is doubtful that all his ideas will be adopted. But his book, which contains some fascinating history, is at the very least thought-provoking.

The New Financial Order: Risk in the 21st Century.
By Robert J. Shiller.
Princeton University Press; 366 pages; $29.95 and £19.95

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Cultural differences

You say tomato

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HOW should families distribute themselves at nightfall? The answer will depend on where you come from. If you are American or British, you will probably argue that parents and children should sleep in separate rooms. But not if you are Indian, say, or Japanese.

Why Do Men Barbecue?: Recipes for Cultural Diversity
By Richard A. Shweder

Harvard University Press; 432 pages; $55 and £36.50

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Hardly a single community around the world believes that infants should usually sleep alone, says Richard Shweder, who describes himself as a cultural anthropologist and cultural psychologist. Yet many people in the United States and Britain think that babies should get used, as soon as possible, to spending the night in their own room rather than their parents' room (or, horrors, the parental bed). In Japan, studies in the 1960s found that at least half of urban Japanese children aged 11 to 15 slept in the same bed as one parent or both. Imagine how such arrangements would be regarded in the suburbs of Boston or Birmingham.

This book is a collection of papers, several of them written with others, whose common theme is the difficulty that people have in responding to cultural differences. Many of these differences revolve around assumptions about the proper roles for men and women, hence the title. Many cultures take pride in the separateness of male and female realms, and have institutions that celebrate and reinforce that separateness. To the Anglo-American, such differences are frequently deplorable.

Mr Shweder, who says he is a “romantic pluralist”, regards reactions to female genital mutilation as one of the key tests of whether or not people openly accept differences between cultures. “The mutual ‘yuck' response...is particularly intense,” he says. Not only do western feminists regard female circumcision with horror (in some countries, it is even grounds for claiming asylum); women in countries where the practice is prevalent, such as Mali and Somalia, are repulsed by the idea of unmodified genitals.

In a world where people move frequently between countries and cultures, such deep-rooted assumptions pose problems. After all, development economists increasingly insist that culture counts on the road to growth, and the international human-rights movement campaigns for women to have the same rights as men, which may be incompatible with notions of gender difference. So people in the West, like 19th-century missionaries, are tempted to impose their cultural assumptions on other countries, convinced that West is best.

Why Do Men Barbecue?: Recipes for Cultural Diversity.
By Richard A. Shweder.
Harvard University Press; 432 pages; $55 and £36.50

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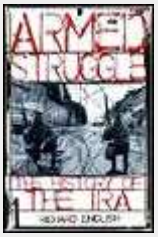
The IRA

Gerrymandering

Apr 17th 2003
From The Economist print edition

PATRICK MAGEE, who killed five people when he bombed the Conservative Party conference in Brighton in 1984, said recently that he wanted “just to be understood, to get a chance to explain”. Mr Magee has found a willing ear in Richard English, the son of a Durham Methodist minister and a Belfast Protestant, whose desire to understand and explain what drove and still drives the IRA led him to write “Armed Struggle”.

Armed Struggle: The History of the IRA
By Richard English



Macmillan; 486 pages; £20.

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Brought up in England, Oxford-educated Mr English is now professor of politics at Queen's University, Belfast, from where he has undertaken the exhaustive research and extensive interviewing that makes this book useful. But in his passionate desire to see the other fellow's point of view, Mr English's style and tone are irresistibly reminiscent of an earnest member of the British Foreign Office who ends up being justifiably accused of having gone native. So fond has Mr English become of several unrepentant but charming IRA ex-prisoners that he seems terrified of hurting their feelings by failing to accord their past the dignity and respect they think it deserves.

Yet despite its mealy-mouthed pandering to the sensibilities of murderers, and its eagerness to breast-beat over the excesses and failures of the British state, Mr English's well-written book convincingly demonstrates the ghastly futility of the IRA campaign. In 1968, a great public servant, T.K. Whitaker, warned the Irish government he served that the only way of bringing about a united Ireland was through patience, understanding, forbearance, and resolute resistance to emotionalism and opportunism: “the use of force to overcome northern unionists would accentuate rather than remove basic differences.” It took the Provisional IRA decades to grasp this, during which time it murdered almost 1,800 people (about half of those killed during the Troubles) while losing fewer than 300 itself. One in five people in Northern Ireland has had a family member killed or injured.

Although nowadays the IRA claims that it fought for equality and justice, its terror campaign was aimed at making Northern Ireland ungovernable, driving out the British and bringing about a united Ireland. These days, its leaders take ministerial posts in a devolved part of the United Kingdom, and Irish unity is further away than ever: the Republic of Ireland just wants the troublesome north to go away. Thirty years of violence to achieve what could easily have been secured through democratic politics has left a legacy of terrible communal bitterness. The IRA wreaked havoc for no good reason, leading one to conclude that to understand is not necessarily to forgive.

Armed Struggle: The History of the IRA.
By Richard English.
To be published in America by Oxford University Press in August 2003
Macmillan; 486 pages; £20.

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New fiction

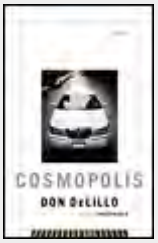
X-town travails

Apr 17th 2003
From The Economist print edition

WHAT to get the billionaire who has everything? Eric Packer, the repellent antihero of Don DeLillo's 13th novel, is a hard man to shop for. Anything short of Pharaonic is bound to look a bit shabby to this 28-year-old master of the universe whose favourite toy is a decommissioned nuclear bomber. But as Eric sets off for work one morning he decides there is, after all, one thing he needs that he doesn't already have: a haircut.

“Cosmopolis” tells the story of what happens to Eric on the way to the barbershop. His crosstown journey from one end of Manhattan's 47th Street to the other lasts all day. (The president is in town and the streets are chock-a-block.) Most of the action takes place inside a stretch limo, where Eric, surrounded by computer screens, trades currencies and consults with various gurus about his financial, physical and intellectual well-being. Between meetings he steps out of the car to stretch his legs, eat, have sex, browse in a bookshop, witness a riot, weep at a passing funeral cortège, attend a rave, commit a murder and feature as an extra in a movie shoot.

Cosmopolis
By Don DeLillo



Scribner; 224 pages; $25.
Picador; £16.99

Buy it at
Amazon.com
Amazon.co.uk

The limo's progress is glacial. But the novel, with Mr DeLillo at the wheel, zooms along, blowing up great billowing clouds of rhetorical dust. “Cosmopolis” is full of wordy ruminations on the relationship between technology and capitalism. “It was shallow thinking that numbers and charts were the cold compression of unruly human energies, every sort of yearning and midnight sweat reduced to lucid units in the financial markets,” Eric muses at one point. “In fact data itself was soulful and glowing, a dynamic aspect of the life process. This was the eloquence of alphabets and numeric systems, now fully realized in electronic form, in the zero-oneness of the world, the digital imperative that defined every breath of the planet's living billions.”

It is Mr DeLillo's stylistic swagger, rather than his take on capitalism, that makes “Cosmopolis” such a compelling read. The pleasures and perils of getting a haircut haven't been so wittily handled since Frank Churchill made a special trip to London to reshape his rug in Jane Austen's “Emma”.

Cosmopolis.
By Don DeLillo.
Scribner; 224 pages; $25.
Picador; £16.99

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About sponsorship

Henri Cartier-Bresson

Regarding Henri

Apr 17th 2003 | PARIS
From The Economist print edition

The man who captured Picasso, Matisse and Mahatma Gandhi's funeral

HENRI CARTIER-BRESSON put down his camera 30 years ago, but that did little to dim his reputation as a seminal figure in photography. Once dubbed *l'oeil du siècle* (the eye of the century), he has been copied by three generations of black-and-white photographers. Even people with scant interest in the art recognise his name and his pictures. Next week, the dapper Frenchman, who will be 95 in August, will be attended by hundreds of guests at a series of Paris parties to mark what many believe will be the final accolade of his life. But far from hogging the limelight, the discreet camera man will be standing to one side, his presence so light and unobtrusive as to render him almost invisible, just as he has always liked it.

The first celebration will be the opening of “De qui s'agit-il?”, a retrospective of Mr Cartier-Bresson's output that includes 350-odd works, plus writings, books and films. The exhibition, designed by his friend and publisher, Robert Delpire, aims not only to offer a definitive survey of his work in all media—including the drawings on which he has focused his energies in the last three decades—but also to answer the question that is loosely posed in the title: what is all this about?

Mr Delpire does so by organising the show into intimate, thematic sections that illustrate the social, political and artistic currents that have informed his photographs—distinguished by a formal French classicism combined with a surrealist eye and the spontaneity of a split-second snapshot. Whether photographing the Spanish civil war, the liberation of Paris, millions of mourners at Mahatma Gandhi's funeral, portraits of Picasso and Matisse or just ordinary people the world over, Mr Cartier-Bresson's work often seems to capture the essence of life itself.

Photography enthusiasts will also want to visit the privately-funded Fondation Henri Cartier-Bresson that opens to the public on May 2nd following another string of *vernissages*. Housed in an elegant five-storey Art Deco building of glass and steel tucked away in a Montparnasse cul-de-sac, the foundation was conceived by Mr Cartier-Bresson and his wife and fellow-photographer, Martine Franck, to showcase his life's work.

Apart from housing his archive, the foundation will also be what the old man describes with characteristic warmth as “a house open to all”—providing a window for both new and established documentary photographers and film-makers who share Mr Cartier-Bresson's beliefs. In addition, the foundation will award a *euro*30,000 ($30,000) biennial prize to a photographer who wants to complete a particular project. The first winner will be announced in June, and their work shown at the foundation in the autumn of 2004.

Even more intriguing is the opening show entitled “Henri Cartier-Bresson's Own Choice”. Under the guidance of Mr Delpire, who chairs the foundation, Mr Cartier-Bresson has picked 90-odd favourite images by fellow photographers. Earlier this year, the two men sat down in Mr Cartier-Bresson's book-lined apartment overlooking the Tuileries Gardens to make the final selection from his initial choice of 300 prints. Already excluded were both colour images and the mannered conceptualism of younger photographers whose work caters to the contemporary art market, for which he has scant regard.

From the little-known Martin Munkasci—his 1931 photograph of naked African boys running into Lake Tanganyika, their bodies sharply silhouetted against the water, first inspired Mr Cartier-Bresson to grab his Leica—to masterpieces by André Kertesz, Walker Evans and Dorothea Lange, all share the vitality and visual integrity that characterise his own pictures.

The same is true even of an early portrait of a well-fed bourgeois German couple by August Sander or a

splendid picture of a portly African, resplendent in his robes and fez, his baby daughter proudly cushioned on his vast bulk, by the late Seydou Keïta, who rarely left his studio in his native Mali. Finally, Mr Cartier-Bresson has also included a handful of photographs taken in Paris by Eugène Atget and contemporaries such as Lisette Model and Robert Doisneau. Not that he feels sentimental about the city where he has lived, off and on, for 80 years or, indeed, his remarkable career: “I have no nostalgia”, he says: “It's very negative”.

“De qui s'agit-il?” is at the Bibliothèque Nationale de France, Paris, from April 29th to July 27th.“Henri Cartier-Bresson's Own Choice” is at 2 Impasse Lebouis, Paris, from May 2nd to July 26th

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New film

Dial P for paranoia

Apr 17th 2003 | LOS ANGELES
From The Economist print edition

Lesson 1: Don't pick up the phone

FAST-TALKING New York publicist Stu Shepard (played by Colin Farrell) lives by his cell-phone and nearly dies in a pay-phone. After calling a client he wants to bed from a callbox so that his wife (Radha Mitchell) won't spot the number on his bill, he answers the ringing phone and finds himself talking to God, or a serial killer with delusions of grandeur. The caller (Kiefer Sutherland) tells his victim that he had better start coming clean to all the people he has lied to, and adds that he'll kill him with a telescopic rifle if he hangs up.

“Phone Booth” arrives via a double time-warp. Written 20 years ago, it identifies its anachronistic single location as the last callbox in New York, slated for demolition the next day. At once confessional and coffin, the pay-phone also symbolises the genre of thriller-cum-morality-play that is being revived here. The film was scheduled for release last autumn but was further delayed by the Beltway snipers, prompting one critic to quip that it was hard to find a safe release date these days.

Taking a break from such mammoth projects as “Batman Forever”, Joel Schumacher directed this little gem on a ten-day schedule with lots of razzle-dazzle. He even finds time to poke fun at trendy targets like Eminem and the “Page Six” gossip column in the *New York Post*, where Mr Farrell has recently been chronicled sowing his wild oats while waiting for “Phone Booth” to prove him a worthy successor to Anna Magnani and Barbara Stanwyck—cinema divas whose classic telephone manner he emulates with distinction in this refreshing throwback.

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About sponsorship

Abdul Majid al-Khoei

Apr 17th 2003
From The Economist print edition

Reuters

Abdul Majid al-Khoei, a good man lost to Iraq, died on April 10th, aged 41

DURING his years in exile Abdul Majid al-Khoei had a number of conversations with American officials about the possibility of eventually returning to an Iraq no longer under the control of Saddam Hussein. He recalled that in 1991, at the end of the first Gulf war, he was sent by his father, the supreme leader of the Shia majority in Iraq, to meet General Norman Schwarzkopf, the leader of the victorious American-led coalition. The Americans had encouraged Iraqis to rise up and take democratic control of their country from supporters of the Saddam Hussein regime. Fourteen of Iraq's 18 provinces did so. Mr Khoei's mission was to ask General Schwarzkopf what support the coalition could give to the would-be democrats. The meeting was cancelled. The coalition forces withdrew from Iraq. Mr Hussein resumed his grip on the country and thousands of his opponents were killed.

When the second Gulf war started Mr Khoei was on the Americans' list of those who could, it was thought, provide leadership in the new Iraq. This time, he was assured, the coalition forces would stay on. Close friends told him not to go, and Mr Khoei was tempted to follow their advice. In exile in London he had created a new life for himself, running the al-Khoei Foundation, a charity set up by his father which provides schools and hospitals in Africa and India, as well as help for Shias in southern Iraq. When Tony Blair (with Mr Khoei in our picture) called a meeting of religious leaders after the events of September 11th, Mr Khoei represented Islam. He and his wife and their four young children were comfortable in Britain.

But he felt an exile's longing to return home. On April 3rd, the British escorted him to the Shias' holy city of Najaf, where the Americans provided him with bodyguards. As an American ally Mr Khoei expected, and received, some opposition from those who remembered the events of 12 years earlier. But his “parliament” of 25 representing various interests in Najaf's population of 500,000 had some success in keeping order and distributing aid. On April 10th, he and another cleric were entering a mosque when the crowd outside barred the way of Mr Khoei's bodyguards. Inside the mosque, the two clerics were attacked by a group of men and hacked to death. Mr Khoei's body had 30 wounds.

Their choice

There are differing views over what government best suits a newly-occupied, or “liberated”, country.

After the second world war Charles de Gaulle, who had fled to Britain after the fall of France, was the popular choice to head the country's new government. In West Germany, the victors approved the election of Konrad Adenauer, who had stayed put after Hitler came to power, although he was never a Nazi. When Japan capitulated, the Americans simply appointed an overlord, Douglas MacArthur.

In the case of Iraq the Americans were drawn to the idea of a fair and representative government made up of local people, but initially watched over by a MacArthur-style American. The murder of Mr Khoei was “a setback, there's no question”, said Paul Wolfowitz, America's deputy defence secretary. On the face of it, Mr Khoei seemed to fit perfectly the coalition's job description for Iraqi leadership at a high level. He was a moderate. He had lived for more than a decade in a democracy and in his conversations with the British prime minister had shown enthusiasm for parliamentary government. He had supported the war against the Taliban and the al-Qaeda in Afghanistan. He had acquired administrative experience running the multi-million dollar budget of the al-Khoei Foundation. Among Shias he had the title of *sayyid* (descendant of the Prophet). He had told a conference of exiles in London, “We are looking for a new Iraq in which everyone has a share.”

In his 40s, Mr Khoei was probably at the height of his powers. He was persuasive and approachable, and the Americans were confident that he would dispel any idea that after 70 years Iraq's independence was over and that the cradle of civilisation had once again come under foreign domination

But Mr Khoei was reminded that his influence, though impressive on paper, was limited when he recently visited Iran, where the Shia majority is far larger than Iraq's. He was followed around with shouts of “Go back to America”. His accord with America and Britain, so important to the coalition, would have made him a marked man among many of his own faith. His critics complained that the Khoei Foundation spent too much in the West. Muhammad Baqer al-Hakim, who leads an Iraqi Shia opposition group from Tehran, called Mr Khoei an “infidel”. Even in Najaf many Shias look to Iran for guidance. Ayatollah Khomeini, who deposed the shah of Iran in 1979 and held American diplomats hostage for over a year, spent many years in Najaf working on his liberation theology. He disliked Saddam Hussein just as much as he did the shah but was equally abusive about the “great satan” America, a view still held by many Iranian theocrats. With Mr Khoei cut down, how many of Najaf's Shias will have confidence in America's capacity to protect their new-found freedom? As Mr Wolfowitz said, it is a setback.

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Overview

Apr 17th 2003
From The Economist print edition

Industrial production remains weak in **America**. Output fell by 0.5% in March, leaving it only 0.4% higher than a year before. However, there were signs of a rebound in consumer spending and confidence. Retail sales rose by 2.1% in March, well above the consensus forecast. The University of Michigan consumer-confidence index rebounded from 77.6 in March to 83.2 in April. America's trade deficit in goods shrank a little in February but the 12-month deficit rose above $500 billion for the first time.

Consumer-price inflation eased in **Britain** to 3.1% in the year to March. The underlying rate, which excludes mortgage-interest payments, stayed at 3.0%, somewhat above the government's 2.5% target. However, financial markets are still expecting the Bank of England to cut interest rates from 3.75% to 3.5% in May.

There were further signs of recent economic weakness in the **euro area**. Austrian GDP fell at an annual rate of 0.5% in the fourth quarter. Italy's industrial production declined by 1.2% in the year to February. However, prospects may be about to improve in the euro area's biggest economy. In Germany, the ZEW expectations index rose in April, suggesting greater confidence about economic recovery.

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Output, demand and jobs

Apr 17th 2003
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2003	2004	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 3.0	Q4	+ 1.6	+ 3.0	+ 3.6	+ 2.3	Q4	+ 5.4	Q4	6.2	Mar	6.4
Austria	+ 1.3	Q4	– 0.5	+ 1.0	+ 1.9	– 1.5	Dec	+ 0.9	Dec	4.3	Mar	4.0
Belgium	+ 1.6	Q4	+ 0.8	+ 1.2	+ 2.2	– 1.6	Feb	+ 3.5	Jan	11.7	Mar†	10.8
Britain	+ 2.2	Q4	+ 1.7	+ 1.9	+ 2.5	+ 0.1	Feb	+ 3.2	Feb	5.1	Feb††	5.1
Canada	+ 3.9	Q4	+ 1.6	+ 2.8	+ 3.3	+ 4.2	Jan	– 0.2	Jan	7.3	Mar	7.7
Denmark	+ 0.9	Q4	– 0.1	+ 1.5	+ 2.3	+ 3.3	Feb	+ 5.8	Feb	5.7	Feb	5.0
France	+ 1.7	Q4	+ 0.9	+ 1.2	+ 2.3	+ 2.0	Feb	– 1.9	Dec	9.2	Feb	8.8
Germany	+ 0.5	Q4	– 0.1	+ 0.4	+ 1.6	+ 0.2	Feb	+ 0.4	Feb	10.6	Mar§	9.6
Italy	+ 1.0	Q4	+ 1.7	+ 1.0	+ 2.0	– 1.2	Feb	+ 1.9	Nov‡	9.0	Jan	9.0
Japan	+ 2.8	Q4	+ 2.2	+ 0.7	+ 0.8	+ 4.2	Feb	– 0.2	Feb	5.2	Feb	5.3
Netherlands	+ 0.4	Q4	– 0.4	+ 0.6	+ 1.9	– 1.6	Feb	– 2.5	Dec	4.6	Feb†**	3.7
Spain	+ 2.1	Q4	+ 1.4	+ 2.1	+ 2.7	+ 2.5	Dec	+ 2.5	Jan	11.9	Feb	11.1
Sweden	+ 1.3	Q4	+ 1.2	+ 1.7	+ 2.4	– 1.8	Feb	+ 4.2	Feb	4.5	Feb†	4.0
Switzerland	+ 0.8	Q4	+ 1.4	+ 0.8	+ 1.8	– 2.1	Q4	– 2.8	Dec	3.9	Mar†	2.6
United States	+ 2.9	Q4	+ 1.4	+ 2.2	+ 3.3	+ 0.4	Mar	+ 2.1	Feb	5.8	Mar	5.7
Euro area	+ 1.3	Q4	+ 0.7	+ 1.0	+ 2.1	+ 0.7	Jan	+ 2.7	Jan	8.7	Feb	8.1
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 2.8	Q4	+ 2.8	na	na	+ 3.6	Feb	+ 2.0	Nov	9.0	Feb†	9.4
Greece	+ 3.5	Q4	na	na	na	+ 0.7	Feb	na		na		na
Iceland	– 3.0	Q4	na	na	na	+12.2	2001	na		4.0	Mar†	2.7
Ireland	+ 6.9	Q3	na	na	na	+ 5.4	Jan	+ 4.7	Jan	4.5	Mar†	4.4
Luxembourg	+ 1.0	2001	na	na	na	+ 3.1	Jan	– 6.1	Oct	3.8	Feb†	2.9
New Zealand	+ 4.2	Q4	+ 2.0	na	na	+ 5.9	Q4	+ 7.3	Q4	4.9	Q4	5.4
Norway	– 0.1	Q4	+ 0.9	na	na	– 6.0	Feb	+ 3.1	Feb	3.7	Q4	3.3
Portugal	– 1.3	Q4	– 3.1	na	na	+ 3.4	Feb	+ 2.3	Feb	6.2	Q4†	4.2

*% change at an annual rate. †Not seasonally adjusted. ‡New series. ††Dec-Feb; claimant count rate 3.1% in Mar. §EU harmonised rate 8.9% in March. **Dec-Feb, new series.

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Prices and wages

Apr 17th 2003
From The Economist print edition

% change on year ago

	Consumer prices latest		Consumer prices year ago	The Economist poll consumer prices forecast 2003	The Economist poll consumer prices forecast 2004	Producer prices latest		Producer prices year ago	Wages/earnings latest		Wages/earnings year ago
Australia	+ 3.0	Q4	+ 3.1	+ 2.7	+ 2.5	+ 1.6	Q4	– 0.7	+ 3.9	Q4	+ 4.9
Austria	+ 1.7	Feb	+ 1.9	+ 1.7	+ 1.3	+ 2.0	Mar	– 0.3	+ 2.2	Feb	+ 2.5
Belgium	+ 1.8	Mar	+ 2.7	+ 1.5	+ 1.4	+ 0.3	Feb	– 0.6	+ 2.2	Q4	+ 3.1
Britain	+ 3.1	Mar	+ 1.3	+ 2.8	+ 2.5	+ 1.9	Mar	– 0.1	+ 3.0	Feb	+ 2.6
Canada	+ 4.6	Feb	+ 1.5	+ 3.0	+ 2.2	+ 2.3	Feb	– 1.1	+ 1.8	Jan	+ 3.7
Denmark	+ 2.9	Mar	+ 2.6	+ 2.3	+ 2.0	+ 0.7	Mar	+ 0.8	+ 3.9	Q4	+ 4.1
France	+ 2.6	Mar	+ 2.1	+ 1.7	+ 1.4	+ 2.8	Feb	– 1.4	+ 3.5	Q4	+ 3.9
Germany	+ 1.2	Mar	+ 2.0	+ 1.1	+ 1.0	+ 1.3	Mar	nil	+ 2.6	Jan	+ 2.3
Italy	+ 2.7	Mar	+ 2.5	+ 2.3	+ 1.9	+ 2.8	Feb	– 1.1	+ 2.1	Dec	+ 2.8
Japan	– 0.2	Feb	– 1.6	– 0.6	– 0.5	– 0.7	Mar	– 2.5	+ 2.1	Feb	– 0.6
Netherlands	+ 2.7	Mar	+ 3.7	+ 2.6	+ 2.1	+ 5.1	Feb	– 2.6	+ 3.0	Feb	+ 4.4
Spain	+ 3.7	Mar	+ 3.2	+ 3.0	+ 2.6	+ 2.9	Feb	– 0.2	+ 3.9	Q4	+ 3.7
Sweden	+ 3.1	Mar	+ 2.9	+ 2.4	+ 2.0	+ 0.6	Feb	– 0.4	+ 4.0	Dec	+ 3.2
Switzerland	+ 1.3	Mar	+ 0.6	+ 0.7	+ 0.9	+ 0.3	Mar	– 1.3	+ 2.5	2001	+ 1.3
United States	+ 3.0	Feb	+ 1.1	+ 2.3	+ 1.8	+ 4.2	Mar	– 1.6	+ 3.1	Mar	+ 3.3
Euro area	+ 2.4	Mar	+ 2.5	+ 1.8	+ 1.5	+ 2.7	Feb	– 1.1	+ 3.4	Q4	+ 3.2
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 1.6	Mar	+ 1.8	na	na	+ 2.3	Feb	– 1.4	+ 3.3	Q4	+ 4.5
Greece	+ 4.1	Mar	+ 4.0	na	na	+ 2.7	Feb	+ 3.5	na		na
Iceland	+ 2.3	Apr	+ 7.5	na	na	+ 3.3	Apr	+ 8.7	+ 5.6	Feb	+ 9.8
Ireland	+ 4.9	Mar	+ 4.8	na	na	– 5.3	Jan	+ 1.7	+ 6.8	Q4	+ 7.8
Luxembourg	+ 2.7	Mar	+ 2.1	na	na	+ 1.3	Jan	– 2.0	+ 0.5	Dec	nil
New Zealand	+ 2.5	Q1	+ 2.6	na	na	– 0.9	Q4	+ 1.8	+ 2.1	Q4	+ 2.2
Norway	+ 3.7	Mar	+ 1.0	na	na	+ 5.1	Mar	– 4.5	+ 5.2	Q4	+ 4.4
Portugal	+ 3.9	Mar	+ 3.2	na	na	+ 2.7	Feb	– 0.6	+ 0.4	Jan	+ 1.3

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Iceland

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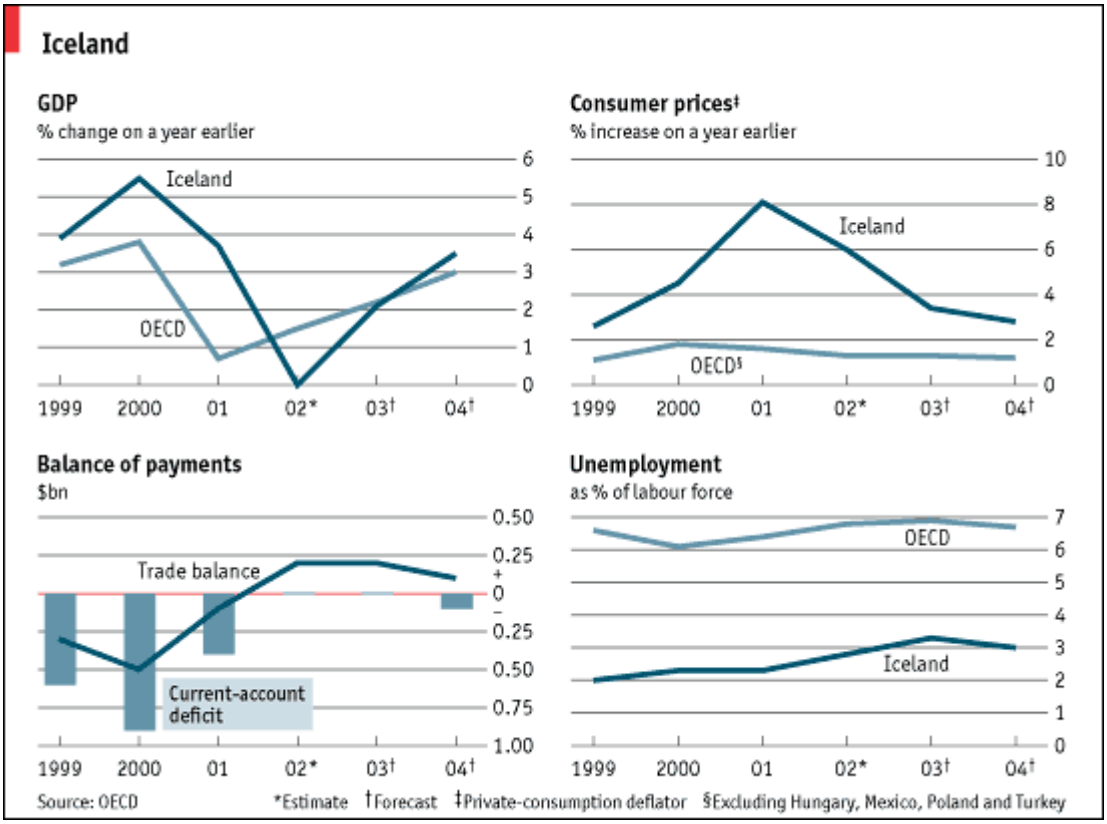
From The Economist print edition



Between 1996 and 2001, Iceland enjoyed one of the fastest growth rates of any advanced country, as it capitalised on fiscal reforms and initiatives to liberalise markets. But the economy over-heated and by 2002, the boom had relapsed into a mild recession. Even so, Iceland remains a prosperous country. Income per head is now around 20% higher than the OECD average, up from 10% in 1995. Fishing is still a big part of the economy, so it is benefiting from higher fish prices. However, Iceland remains vulnerable to external shocks and home-grown economic volatility. The economy is expected to recover this year with GDP growing by 2.1%. The upswing should gather strength in 2004, with growth of 3.5%. The OECD calls for limits on the country's generous housing subsidies. It also recommends greater consolidation of the fragmented savings-bank sector.

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Money and interest rates

Apr 17th 2003
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Apr 15th 2003)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	–11.8	+10.3	Feb	4.80	4.62	4.66	5.40	6.33	6.22
Britain	+ 6.2	+ 6.7	Feb	3.63	4.13	3.57	4.46	5.22	6.07
Canada	+ 5.7	+ 3.7	Feb	3.22	2.38	3.84	5.12	5.71	6.97
Denmark	+ 8.7	+10.4	Feb	2.69	3.70	2.84	4.41	5.34	5.52
Japan	+14.4	+ 1.8	Mar	0.02	0.03	0.05	0.66	1.40	0.77
Sweden	+ 0.4	+ 5.2	Jan	3.41	4.28	3.66	4.70	5.58	4.16
Switzerland	+12.9	+ 8.7	Feb	0.30	1.59	0.25	2.56	3.46	3.25
United States	+ 3.9	+ 6.2	Mar	1.21	1.82	1.68	3.97	5.22	6.07
Euro area†	+10.3	+ 8.1	Feb	2.56	3.40	2.62	4.16	5.11	4.58

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 4.95%, Japan No.248 0.66%. Central bank rates: US fed funds 1.25%, ECB refinancing 2.50%, BOJ overnight call 0.002%, BOE repo 3.75%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS Warburg, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Apr 17th 2003
From The Economist print edition

1995=100

	Apr 8th	Apr 14th*	% change on one month	% change on one year
Dollar index				
All items	75.8	75.6	– 1.2	+ 9.6
Food	77.9	77.1	– 0.3	+11.1
Industrials				
All	72.9	73.5	– 2.5	+ 7.5
Nfa†	78.2	79.4	+ 0.3	+16.2
Metals	68.4	68.6	– 5.1	+ 0.2
Sterling index				
All items	77.1	75.7	– 1.9	+ 0.1
Euro index				
All items	93.4	92.2	– 2.7	–10.3
Yen index				
All items	96.7	96.7	– 0.1	+ 0.5
Gold				
$ per oz	322.80	326.20	– 3.8	+ 9.3
West Texas Intermediate				
$ per barrel	28.03	28.65	– 9.0	+13.8

* Provisional. † Non-food agriculturals.

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Stockmarkets

Apr 17th 2003
From The Economist print edition

Market indices

	Apr 15th	2003 high	2003 low	% change on one week	% change on record high	% change on Dec 31st 2002 in local currency	% change on Dec 31st 2002 in $ terms
Australia (All Ordinaries)	2,932.4	3,049.6	2,673.3	– 0.3	–14.8	– 1.4	+ 5.9
Austria (ATX)	1,191.0	1,211.3	1,120.2	– 1.2	–31.4	+ 3.6	+ 6.5
Belgium (Bel 20)	1,891.1	2,074.1	1,426.6	+ 3.9	–48.6	– 6.6	– 4.0
Britain (FTSE 100)	3,916.8	4,009.5	3,287.0	+ 1.2	–43.5	– 0.6	– 3.0
Canada (Toronto Composite)	6,488.2	6,837.3	6,228.6	+ 0.8	–43.0	– 1.9	+ 6.7
Denmark (KBX)	173.3	173.3	145.0	+ 2.8	–42.6	+ 4.2	+ 7.2
France (SBF 250)	1,951.5	2,144.8	1,630.1	+ 1.1	–55.6	– 5.0	– 2.3
(CAC 40)	2,921.5	3,210.3	2,403.0	+ 1.0	–57.8	– 4.6	– 2.0
Germany (DAX)	2,834.1	3,157.3	2,203.0	+ 2.4	–64.9	– 2.0	+ 0.7
Italy (BCI)	1,095.4	1,142.4	959.4	+ 1.2	–49.8	+ 0.3	+ 3.1
Japan (Nikkei 225)	7,838.8	8,790.9	7,752.1	– 3.6	–79.9	– 8.6	– 9.8
(Topix)	788.2	865.4	770.6	– 1.8	–72.7	– 6.5	– 7.7
Netherlands (AEX)	288.2	337.3	218.4	+ 3.1	–58.9	–10.7	– 8.2
Spain (Madrid SE)	679.5	683.8	576.8	+ 2.4	–40.7	+ 7.2	+10.2
Sweden (Affarsvarlden Gen)	143.5	153.4	127.8	+ 0.1	–64.1	– 1.2	+ 1.5
Switzerland (Swiss Market)	4,605.3	4,965.3	3,675.4	+ 3.1	–45.3	– 0.6	– 1.1
United States (DJIA)	8,402.4	8,842.6	7,524.1	+ 1.2	–28.3	+ 0.7	+ 0.7
(S&P 500)	890.8	931.7	800.7	+ 1.4	–41.7	+ 1.2	+ 1.2
(NASDAQ Comp)	1,391.0	1,461.0	1,271.5	+ 0.6	–72.4	+ 4.2	+ 4.2
Europe (FTSE Eurotop 300)*	821.5	890.8	682.7	+ 1.4	–51.8	– 4.1	– 1.5
Euro area (FTSE Ebloc 100)*	693.8	757.2	565.7	+ 1.5	–55.3	– 3.4	– 0.7
World (MSCI)†	789.1	830.7	710.8	+ 1.3	–45.5	na	– 0.4
World bond market (Citigroup)‡	534.8	551.7	518.6	+ 0.6	– 3.1	na	+ 1.8

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Apr 17th 2003
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current account $bn latest 12 mths		The Economist poll % of GDP, forecast 2003	2004	Exchange rate trade-weighted† 1990=100 Apr 15th	year ago	Currency units per $ Apr 15th	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2002‡
Australia	− 6.7	Feb	− 17.7	Q4	− 4.7	− 3.9	78.0	76.3	1.65	1.86	2.60	1.78	1.37	0.1
Austria	+ 0.6	Jan	+ 0.9	Jan	− 0.7	− 0.9	101.7§	100.3	0.93	1.13	1.46	–	0.77	-1.6
Belgium	+ 16.4	Jan	+ 11.8	Dec	+ 4.9	+ 4.9	101.4§	99.0	0.93	1.13	1.46	–	0.77	nil
Britain	− 55.5	Feb	− 13.1	Q4	− 1.8	− 1.6	100.1	107.0	0.64	0.69	–	0.69	0.53	-1.4
Canada	+ 35.0	Feb	+ 11.0	Q4	+ 1.6	+ 1.7	81.1	76.6	1.45	1.58	2.28	1.57	1.21	0.6
Denmark	+ 8.1	Jan	+ 5.1	Jan	+ 2.0	+ 1.9	105.4	101.9	6.88	8.37	10.8	7.43	5.73	2.2
France	+ 8.9	Feb	+ 28.3	Feb	+ 1.7	+ 1.6	104.5§	101.6	0.93	1.13	1.46	–	0.77	-2.7
Germany	+122.8	Feb	+ 46.9	Feb	+ 1.9	+ 1.8	101.8§	98.5	0.93	1.13	1.46	–	0.77	-3.7
Italy	+ 7.5	Feb	− 8.8	Jan	− 0.4	− 0.3	74.5§	72.5	0.93	1.13	1.46	–	0.77	-2.3
Japan	+ 95.9	Feb	+115.0	Feb	+ 2.6	+ 2.9	129.8	129.1	120	131	189	130	–	-7.9
Netherlands	+ 29.5	Feb	+ 9.1	Q4	+ 3.2	+ 3.2	100.7§	97.9	0.93	1.13	1.46	–	0.77	-0.8
Spain	− 40.8	Jan	− 17.1	Dec	− 2.2	− 2.1	76.0§	74.2	0.93	1.13	1.46	–	0.77	nil
Sweden	+ 15.0	Feb	+ 9.9	Dec	+ 3.6	+ 3.5	79.6	76.2	8.49	10.3	13.3	9.16	7.06	1.7
Switzerland	+ 4.7	Feb	+ 32.0	Q4	+11.2	+11.4	114.1	112.3	1.39	1.66	2.19	1.50	1.16	na
United States	−503.7	Feb	−503.4	Q4	− 5.4	− 5.3	107.8	121.8	–	–	1.57	1.08	0.83	-3.1
Euro area	+ 95.5	Jan	+ 53.5	Jan	+ 0.8	+ 0.8	87.4	78.6	0.93	1.13	1.46	–	0.77	-2.2
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 13.5	Feb	+ 10.1	Feb	na	na	80.4§	78.2	0.93	1.13	1.46	–	0.77	3.2
Greece	− 22.3	Feb	− 10.8	Feb	na	na	58.7§	57.5	0.93	1.13	1.46	–	0.77	-1.1
Iceland	+ 0.2	Feb	nil	Q4	na	na	93.0**	80.4	77.1	97.2	121	83.2	64.1	0.3
Ireland	+ 36.1	Jan	− 0.2	Q4	na	na	91.6§	87.2	0.93	1.13	1.46	–	0.77	-0.5
Luxembourg	− 3.0	Jan	+ 1.7	Q4	na	na	101.4§	99.0	0.93	1.13	1.46	–	0.77	1.8
New Zealand	− 0.9	Feb	− 1.9	Q4	na	na	96.7	86.7	1.82	2.25	2.85	1.96	1.51	1.6
Norway	+ 28.1	Mar	+ 27.4	Jan	na	na	101.4	100.1	7.27	8.61	11.4	7.84	6.05	12.4
Portugal	− 12.6	Jan	− 9.2	Jan	na	na	91.3**	89.9	0.93	1.13	1.46	–	0.77	-3.4

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, January average. ‡OECD estimate. **IMF, November average.

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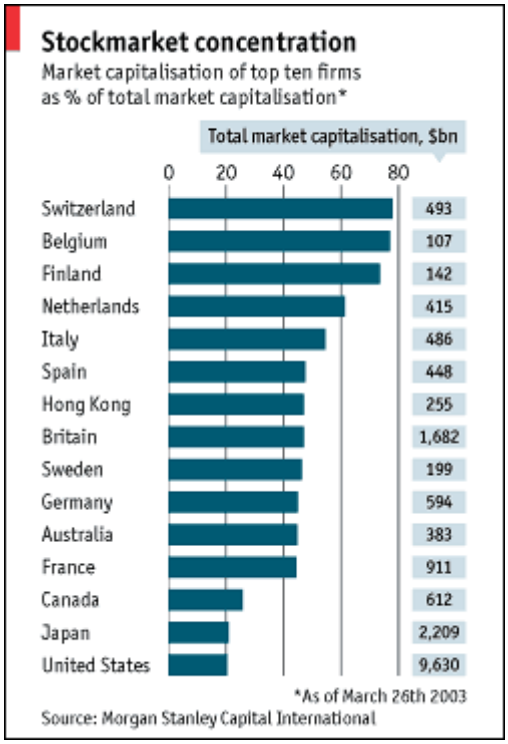
Stockmarket concentration

Apr 17th 2003
From The Economist print edition



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Overview

Apr 17th 2003
From The Economist print edition

After years of surpluses, **China** ran a trade deficit for the second month this year. As a result, the surplus over the past 12 months has shrunk to $22.1 billion. The stockmarket was unfazed, gaining 7.3% over the week.

Industrial production rose in **India** by 6.4% in the year to February. However, the stockmarket fell by 5.6% over the week because of losses in technology stocks.

In **Colombia**, industrial output rose by 5.7% in the year to January. But factories in **Mexico** are less busy: industrial production rose by only 1.2% in the year to February.

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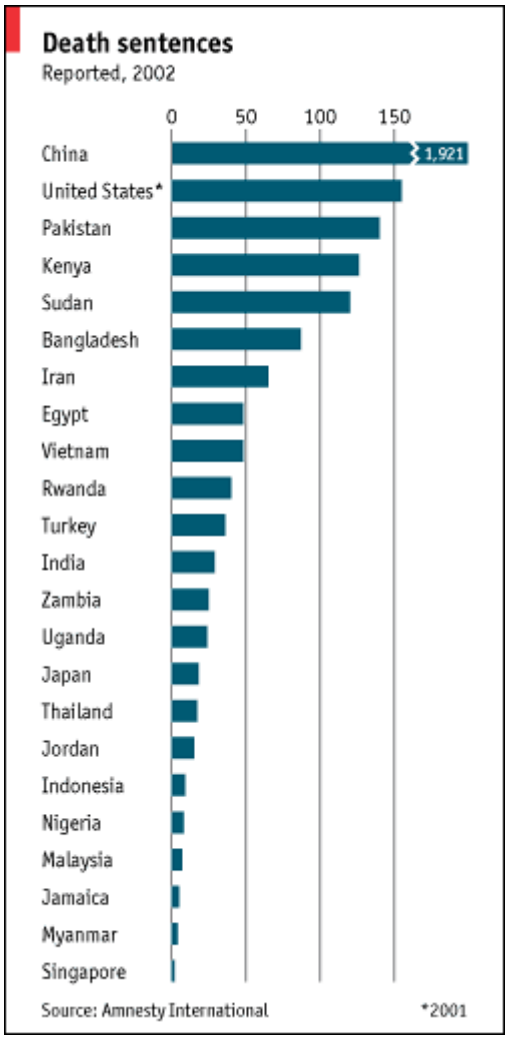
Death sentences

Apr 17th 2003
From The Economist print edition

At least 3,248 people were sentenced to death last year in 67 countries, according to Amnesty International. More than half of these were in China, where 1,921 death penalties were imposed. Pakistan, Kenya and Sudan each sentenced more than 100 people to death. However, the number of reported executions was lower than the number of death sentences. At least 1,526 people were executed in 2002. At the end of 2002, the death penalty had been scrapped either in law or in practice by 112 countries. Turkey and Cyprus joined this group during the year.



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Economy

Apr 17th 2003
From The Economist print edition

	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 8.1	Q4	+16.9	Mar	+ 0.2	Feb	+22.1	Mar	+17.4	2001	309.2	Jan
Hong Kong	+ 5.0	Q4	– 9.2	Q4	– 2.0	Feb	– 7.9	Feb	+13.8	Q4	113.6	Mar
India	+ 2.6	Q4	+ 6.4	Feb	+ 3.9	Feb	– 8.2	Feb	+ 4.5	Q3	71.1	Mar
Indonesia	+ 3.8	Q4	+ 6.7	Jan	+ 7.1	Mar	+25.6	Feb	+ 7.5	Q3	31.1	Feb
Malaysia	+ 5.6	Q4	– 0.9	Feb	+ 1.6	Feb	+14.3	Feb	+ 7.3	Q4	34.5	Feb
Philippines	+ 5.8	Q4	+ 4.9	Jan	+ 2.9	Mar	+ 0.2	Feb	+ 6.1	Sep	12.9	Mar
Singapore	+ 1.5	Q1	– 1.4	Feb	+ 0.4	Feb	+10.7	Feb	+18.7	Q4	83.5	Mar
South Korea	+ 6.8	Q4	+10.2	Feb	+ 4.5	Mar	+ 7.7	Mar	+ 5.1	Feb	123.9	Feb
Taiwan	+ 4.2	Q4	+10.1	Feb	– 0.2	Mar	+16.6	Mar	+25.8	Q4	168.6	Mar
Thailand	+ 6.1	Q4	+12.8	Feb	+ 1.7	Mar	+ 4.8	Feb	+ 8.3	Feb	37.9	Feb
Argentina	– 3.6	Q4	+12.3	Feb	+31.7	Mar	+16.0	Feb	+ 8.9	Q4	10.3	Feb
Brazil	+ 3.4	Q4	+ 2.8	Jan	+15.9	Feb	+16.0	Mar	– 5.5	Feb	38.4	Feb
Chile	+ 3.2	Q4	+ 7.8	Feb	+ 4.5	Mar	+ 2.3	Feb	– 0.6	Q4	16.5	Feb
Colombia	+ 2.0	Q4	+ 5.7	Jan	+ 7.6	Mar	nil	Dec	– 1.5	Q3	10.5	Mar
Mexico	+ 1.9	Q4	+ 1.2	Feb	+ 5.6	Mar	– 6.9	Feb	–14.5	Q4	52.0	Feb
Peru	+ 5.3	Feb	+ 4.0	Jan	+ 3.4	Mar	+ 0.3	Jan	– 1.1	Q4	9.3	Jan
Venezuela	–16.7	Q4	–64.8	Dec	+34.1	Mar	+13.9	Q4	+ 7.6	Q4	8.6	Dec
Egypt	+ 3.1	2002†	+ 4.2	2002†	+ 3.0	Dec	– 7.8	Dec	+ 0.5	Q4	13.2	Dec
Israel	+ 1.3	Q4	+ 3.0	Jan	+ 4.8	Mar	– 5.7	Mar	– 2.1	Q4	23.7	Mar
South Africa	+ 3.0	Q4	+ 0.4	Feb	+12.5	Mar	+ 3.9	Feb	+ 0.3	Q4	6.1	Feb
Turkey	+11.4	Q4	+ 4.4	Feb	+29.4	Mar	–16.0	Jan	– 1.3	Dec	27.9	Feb
Czech Republic	+ 1.5	Q4	+ 5.2	Feb	– 0.4	Mar	– 2.5	Feb	– 3.5	Q4	24.7	Mar
Hungary	+ 3.7	Q4	+ 1.6	Feb	+ 4.7	Mar	– 3.6	Feb	– 3.0	Feb	13.0	Feb
Poland	+ 2.1	Q4	+ 4.1	Feb	+ 0.6	Mar	–10.2	Feb	– 6.3	Feb	30.7	Feb
Russia	+ 4.3	Q3	+ 6.5	Feb	+14.8	Mar	+50.2	Feb	+38.3	Q1	49.3	Feb
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Pakistan	+ 3.6	2002†	+15.8	Nov	+ 2.3	Mar	– 1.5	Mar	+ 2.7	2002†	8.9	Feb
Saudi Arabia	+ 1.2	2001	na		– 0.9	Jan	+39.2	2001	+ 9.4	2001	21.2	Jan

*Excluding gold, except Singapore; IMF definition. †Year ending June. ‡New series.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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Financial markets

Apr 17th 2003
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Apr 15th		Dec 31st 2002	
	Apr 15th	year ago	Apr 15th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	13.0	na	1,706.7	+7.3	+ 20.3	+ 20.3
Hong Kong	7.80	7.80	12.3	1.44	8,632.1	−2.0	− 7.4	− 7.4
India	47.3	48.9	74.3	5.19	2,997.4	−5.6	− 11.2	− 10.0
Indonesia	8,843	9,430	13,891	11.83	437.7	+3.7	+ 3.0	+ 4.3
Malaysia	3.80	3.80	5.97	3.10	631.2	−1.4	− 2.3	− 2.3
Philippines	52.4	51.0	82.3	9.63	1,116.5	+0.8	+ 9.6	+ 11.7
Singapore	1.78	1.83	2.80	0.69	1,291.8	−2.0	− 3.7	− 6.2
South Korea	1,217	1,314	1,912	4.59	605.0	+3.0	− 3.6	− 6.1
Taiwan	34.8	34.9	54.6	1.40	4,487.6	−1.4	+ 0.8	+ 0.8
Thailand	42.9	43.3	67.4	1.75	383.4	+2.0	+ 7.5	+ 8.0
Argentina	2.96	2.84	4.65	8.30	591.6	+4.4	+ 12.7	+ 28.0
Brazil	3.13	2.31	4.92	26.32	12,106.0	+2.8	+ 7.4	+ 21.5
Chile	719	645	1,129	2.52	5,260.3	+2.6	+ 4.8	+ 5.0
Colombia	2,920	2,263	4,586	7.68	1,676.4	+2.3	+ 4.2	+ 2.3
Mexico	10.65	9.17	16.7	7.99	6,333.6	+1.2	+ 3.4	+ 1.6
Peru	3.46	3.43	5.44	3.94	1,667.1	+1.1	+ 19.8	+ 21.6
Venezuela	1,598	891	2,510	25.98	8,288.7	−2.4	+ 3.4	− 10.3
Egypt	5.86	4.63	9.20	12.75	7,011.1	+3.2	+ 30.5	+ 3.2
Israel	4.59	4.80	7.21	5.82	386.8	+4.9	+ 16.3	+ 20.5
South Africa	7.7	11.2	12.1	13.80	7,842.3	−1.5	− 15.5	− 5.5
Turkey	1,621,000	1,305,000	2,546,429	42.00	11,169.0	+6.2	+ 7.7	+ 10.3
Czech Republic	29.2	34.1	45.9	2.44	505.2	−0.5	+ 9.7	+ 12.9
Hungary	227	273	357	6.51	7,897.8	−0.0	+ 1.3	+ 0.2
Poland	3.93	4.05	6.18	5.95	14,193.1	−1.8	− 1.2	− 3.7
Russia	31.2	31.2	49.0	18.00	386.8‡	+4.9	+ 5.1	+ 7.7
EMF (MSCI)*	1.00	1.00	1.57	na	290.7	+1.7	na	− 0.5
EMBI+†	1.00	1.00	1.57	na	254.2	+1.3	na	+ 11.0

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡ In $ terms.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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